

APPENDICES

APPENDIX 1 - OFFICE OF INSPECTOR GENERAL (OIG) AUDITS AND REPORTS

SBA Long-Term Objective 2.1

Increase the positive impact of SBA assistance upon the number and success of small business start-ups.

OIG Inspection Report 3-26. *The Microloan Program: Moving Toward Performance Management*

(Full report at <http://www.sba.gov/ig/03-26.pdf>)

The OIG issued an inspection report revealing that, although program management has made, and continues to make, improvements in the Microloan Program, sufficient information has not been developed to effectively monitor results beyond microloan volume information. Reporting requirements are not always met by participants or enforced by program staff. The microloan data currently required focuses more on activities than accomplishments and is not related to specific outcome-oriented annual and strategic goals. To demonstrate program effectiveness and increase efficiency, we recommended that program officials set program goals, improve the enforcement of reporting requirements, and use comparative cost data to determine participant viability. OIG recommendations also included, among others, the establishment of a role for the district offices in the marketing and oversight of the program, the development of a Standard Operating Procedure, an increase in the Intermediaries' per year microloan minimum requirement, an automated grant reporting process, and a periodic grant competition for the Non-Lending Technical assistance Providers (NTAPs). We have reached agreement with the Office of Financial Assistance on all but two of the recommendations. The Agency has one recommendation under consideration, and the OIG has appealed management's decision on the other recommendation.

OIG Audit Report 3-33. *Audit of SBIC Oversight*

(Full report at <http://www.sba.gov/ig/03-33.pdf>)

The OIG issued an audit report on the Small Business Investment Company (SBIC) Program that found unnecessary costs were incurred by the SBA because of inadequate and inconsistent oversight of the SBICs. The SBICs are private investment firms, licensed by the SBA, that make investments using private capital as well as borrowed funds guaranteed by the SBA. We found that the SBA needs to improve both the evaluation of each SBIC's reported financial condition and the management actions taken to limit the risk to the Federal Government from financially troubled SBICs.

The OIG found that the SBA established the concept of forbearance, as published in regulations for the program, in such a way that it restricted the Agency's ability to limit risk. The regulations set forth forbearance periods to determining when an SBIC has a condition of capital impairment (a financial condition occurring when an SBIC's net realized and unrealized losses exceed its earnings and unrealized gains). The regulations also exempt certain levels of capital impairment from the remedies

provided in CFR 107.1820 during the first eight years following SBIC's first issue of Participating Securities. As a result, the Agency delayed the liquidation of SBICs with inadequate capital, allowed the financially troubled SBICs' assets to erode in value, and made unnecessary interest payments for these SBICs. Additionally, the SBA's ability to limit risk was hindered by outdated program guidance that failed to: (1) address current practices and procedures, (2) to require a financial analysis of SBIC financial data needed to enhance the recovery of SBA guaranteed funds; and (3) to ensure the consistent implementation of restricted operations for troubled SBICs.

The OIG recommended that the SBA reassess the appropriateness of the forbearance regulations and obtain a legal opinion on whether it could use receiverships to liquidate financially troubled SBICs. Additionally, we recommended that the SBA revise guidance for the program to require financial analyses that could be used to recover funds, take into consideration the specific situation for each SBIC including the appropriateness of forbearance to the situation, and ensure a systematic approach to liquidations. We also recommended that the SBA explore the use of receiverships for the program.

The Agency responded with a justification for its use of forbearance and agreed to obtain a legal opinion on receiverships; provide support for the established forbearance period; and to revise program operating procedures. The Agency did not agree to other specific recommendations related to forbearance and consistent implementation of restricted operations.

OIG Inspection Report 3-43. *Insufficient Proof of Citizenship for SBA Loans*

(Full report at <http://www.sba.gov/ig/03-43.pdf>)

As a result of recent investigative work involving misrepresentation of citizenship, the OIG issued an inspection report recommending actions to mitigate vulnerabilities in SBA loan guarantees. The report found that the SBA and its lenders have little assurance that prospective borrowers truthfully disclose their citizenship status. Recent OIG investigations have identified borrowers who misrepresented their citizenship status in order to obtain SBA guaranteed loans, despite the fact that non-citizens (i.e., aliens) can receive SBA loans if they meet certain requirements. The Agency cannot be reasonably certain that its loan programs benefit only eligible citizens or legal aliens because of reliance on prospective borrowers' honesty, concerns about loan origination delays, concern over the appearance of discriminatory practices, and the lack of a definitive national identification system for foreign nationals. We recommended that, consistent with the USA PATRIOT Act, the SBA issue an interim directive instructing its lenders to verify the identities of new customers involved with the Agency programs. Financial institutions are expected to follow the recently issued Patriot Act regulations while SBA non-bank lenders should take steps similar to those in the regulations to verify eligibility. Accordingly, the SBA has drafted a notice that was in the clearance process as of September 30, 2003.

The report also found that the SBA cannot readily determine how many loans go to citizens and how many to aliens. We recommended that the SBA collect citizenship status data, including available alien registration numbers, in its loan databases so that potential trouble spots in its portfolio can be identified and programmatic research can be performed. The Agency has not yet made a management decision on this recommendation.

SBA Long-Term Objective 2.2

Maximize the sustainability and growth of existing small businesses assisted by SBA.

OIG Audit Report 3-10. *Audit of 504 Loan Program Oversight*

(Full report at <http://www.sba.gov/ig/03-10.pdf>)

The 504 Loan Program was established to foster economic development, create or preserve job

opportunities, and stimulate growth, expansion, and modernization of small businesses. OMB Circular A-129, "Policies for Federal credit Programs and Non-Tax Receivables", requires agencies to conduct on-site lender and servicer reviews. The SBA Office of Lender Oversight was established in August 1999 to ensure that the oversight system, among other things, provided a more effective means of identifying risk to the Federal Government. The Agency issued Standard Operating Procedure (SOP) 50 50 4B, "Loan Policy and Program Oversight Guide for Lender Reviews" effective October 1, 1999. The guide was intended to provide operating procedures for assessing the level of compliance of SBA's lending partners.

The objective of the audit was to determine if SBA's oversight of the 504 Loan Program provided a thorough and reliable evaluation of the Certified Development Companies (CDCs) to assess and anticipate financial risk to the loan portfolio.

Although the 504 Loan Program appears to operate efficiently, as evidenced by a low default rate, we identified areas of program oversight that could be improved. Specifically:

- SBA oversight did not adequately address financial risk and incomplete annual reports were used in compliance reviews.
- Lender oversight reviews were not tracked to ensure accomplishment once every three years.

We recommended that the Associate Administrator for Lender Oversight (AA/LO) take action to design a separate review guide for the 504 Loan Program, ensure annual reports submitted by CDCs are complete, and implement a review tracking system.

The AA/LO agreed to develop a review guide specific to the needs and requirements of the 504 Loan program. The response indicated that a new tracking system for monitoring oversight reviews has already been implemented. The AA/LO proposed that the Office of Lender Oversight rather than district offices assure annual reports are complete.

OIG Audit Report 3-22. *Office of Veterans Business Development's Monitoring of Cooperative Agreement*

(Full report at <http://www.sba.gov/ig/03-22.pdf>)

A report on OVBD's administrative oversight of TEP Consulting, Inc. found that OVBD did not address TEP's possible noncompliance with cooperative agreement terms and conditions with TEP as the issues arose. OVBD staff lacked the necessary expertise and training and were overly cautious in notifying TEP of noncompliance issues. As a result, problems were not corrected and Federal funds may not have been used effectively and efficiently. OVBD agreed with the OIG's recommendations and also decided not to extend the option year on the cooperative agreement.

OIG Audit Report 3-23. *Audit of Selected Aspects of the Service Corps of Retired Executives (SCORE) Program*

(Full report at <http://www.sba.gov/ig/03-23.pdf>)

An audit of selected aspects of the SCORE Program found that, while the National SCORE Office (NSO) had an internal control structure in place to ensure appropriate use of Federal funds, the NSO did not: (1) report program income earned by its chapters on SBA Form 269, "Financial Status Report," as required by the terms and conditions of the Notice of Award; and (2) include its chapters' financial activities in its financial statements in accordance with financial accounting standards. The report did not determine whether the established salary levels for the three highest paid salaried positions for FY 2003 were allowable and reasonable because the auditors concluded that the SBA does not have express legislative authority to provide funding to SCORE for its paid positions. The report also concluded that the SBA's monitoring of the performance and financial aspects of the award should be strengthened. Program officials generally concurred with the recommendations.

SBA Long-Term Objective 2.3

Significantly increase successful small business ownership within segments of society facing competitive opportunity gaps

OIG Audit Report 2-33. 7(j) Management and Technical Assistance Program

(Full report at <http://www.sba.gov/ig/2-33.pdf>)

We determined that the pre and post award processes associated with 7(j) cooperative agreement awards were not carried out in accordance with applicable policies and procedures or in the most effective manner. Specifically, (1) SBA's reliance on unsolicited proposals hampered its ability to effectively plan, process and approve project awards, (2) documentation associated with proposal and financial reviews was incomplete, (3) award recommendations were not properly supported, (4) legal sufficiency review issues were not resolved prior to award, and (5) program reporting and monitoring was insufficient to ensure program objectives were met.

The extent of SBA's failure to follow established policies and procedures indicates a lack of sound program management, a potential material internal control weakness in the program, and abuse of the 7(j) program to award cooperative agreements to specific organizations. If not corrected immediately and the Administrator determines that a material internal control weakness exists in the program, the weakness should be reported to the President of the United States and appropriate Congressional oversight committees with proposed corrective actions in the upcoming annual internal control certification by the Administrator as required by the Federal Manager's Financial Integrity Act (FMFIA).

SBA Long-Term Objective 3.1

Maximize the timely restoration of businesses and homes following disaster

OIG Audit Report 3-13. Audit of Economic Injury Disaster Loans

(Full report at <http://www.sba.gov/ig/03-13.pdf>)

The SBA Disaster Loan Program is the Federal Government's primary method for funding the recovery of small business disaster victims. When such victims need to borrow funds to repair or replace uninsured damages, SBA's low interest rates and long terms make recovery more affordable. Under the authority of the Small Business Act, SBA provides physical and economic injury assistance to business owners, individuals, and non-profit organizations to rebuild, replace personal property, and overcome economic injury.

Economic injury disaster assistance is available only to small business owners who have suffered a substantial economic injury and are unable to obtain credit elsewhere. In addition, economic injury assistance is available to disaster victims who are designated a major source of employment in an area affected by a disaster. The Office of Disaster Assistance administers the Disaster Loan Program.

The audit objectives were to determine whether: (i) economic injury disaster loans were approved for applicants who had used all reasonably available funds and were unable to obtain credit elsewhere, and (ii) disaster assistance loans of \$1 million or more met eligibility criteria relative to size standards and major source of employment designations.

The audit disclosed that borrowers obtained low-interest, taxpayer-subsidized economic injury disaster loans despite having net assets available to use directly to alleviate their economic injury or to provide them credit elsewhere. As a result, for loans of \$150,000 or less approved during fiscal years 1997 through 2000, taxpayers subsidized an estimated \$114 million for individuals and businesses that had the means to alleviate their economic injury.

We recommended that the Associate Administrator for Disaster Assistance:

- Define available net assets.
- Establish a ratio that identifies reasonably available net assets relative to the economic injury loan amount.
- Use empirical data to determine (i) the appropriateness of using the \$750,000 threshold of total net available assets and (ii) the blanket application of the 50 percent equity rule to ascertain available net assets that could be used to alleviate economic injury or obtain credit elsewhere.

The program is working to address some of these comments through the implementation of a task force looking at the Credit Elsewhere Test.

OIG Audit Report 3-39. *Monitoring of SBA's Implementation of the Disaster Credit Management System*

(Full report at <http://www.sba.gov/ig/03-39.pdf>)

An audit report on SBA's Implementation of the Disaster Credit Management System (DCMS) disclosed that the Office of the Chief Information Officer did not provide adequate oversight of the DCMS development project. The SBA failed to (1) conduct a security risk analysis for the DCMS project; (2) fully determine security requirements for DCMS before important decisions were made as to selecting Commercial Off-the-Shelf (COTS) software; (3) prepare a security plan for DCMS in a timely manner; (4) plan for an Independent Verification and Validation of DCMS; and (5) plan to perform a certification and accreditation review of DCMS before it went into production. The Associate Administrator for Disaster Assistance and the CIO generally agreed with five recommendations and disagreed with one recommendation.

SBA Long-Term Objective 4.1

SBA's general planning and management will result in clearly defined goals and effective strategies, and the coordination of operational support, so as to maximize the Agency's mission performance through a comprehensive performance management system.

OIG Inspection Report 3-28. *Advisory Memorandum: Problems with SBA's Directives System*

(Full report at <http://www.sba.gov/ig/03-28.pdf>)

An inspection memorandum on the SBA's directives system found that the current status of the system has negative consequences for Agency staff, resource partners, and small businesses. Expired policy and procedural notices continue to be used, while drafts of proposed standard operating procedures are sometimes used before they are officially cleared and issued. The uncertainty created can result in an inefficient use of employee time, delay service delivery to small businesses, create a negative public image, and produce unforeseen legal issues. The Agency concurred with the substance of the recommendation, has established a working group, and is developing a plan for revising the fundamental structure of the directives system.

SBA Long-Term Objective 4.2

SBA will recruit, sustain and effectively deploy a skilled, knowledgeable, diverse workforce and executive cadre capable of executing high quality programs and activities that meet current and emerging needs of its customers.

OIG Inspection Report 2-20. *Modernizing Human Capital Management*

(Full report at <http://www.sba.gov/ig/2-20.pdf>)

OIG issued a report on modernizing human capital management. The purpose of the report was to provide SBA management with recommendations to assist in repositioning the Human Resources (HR) office and its functions. However, the report's research and conclusions are broad-based and may have value for other government entities facing these challenges. The inspection focused primarily on: (1) delivery systems (especially automation); (2) HR metrics; and (3) office structure. To identify "best practices" in these areas, OIG staff visited agencies that are moving ahead in HR automation, advisory services, and building metrics.

OIG made several recommendations. First, that SBA review the business case for its HR information system in light of other agencies' implementation experiences and the Administration's new HR initiatives, and consider available short-term alternatives. Second, that the SBA HR office develop business case metrics to determine the cost effectiveness of implementing appropriate functional automation software and/or outsourcing or cross-servicing certain HR functions. Third, that the SBA HR office work with SBA management to develop a measurement system that conforms to the Office of Personnel Management's (OPM) Standards of HR Management Accountability and includes: (1) financial measures, such as cost per employee hired; (2) customer satisfaction measures, such as those associated with responsiveness and quality; (3) workforce capacity measures, such as employee satisfaction and education; and (4) process effectiveness, such as cycle time and productivity. Fourth, that the Assistant Administrator for HR ensure that: (1) relevant SBA HR activities, such as strategic advisory services, are incorporated into office operations, and the office plays a key role in the Agency's workforce planning and restructuring effort; (2) a process is in place for working closely with line management; (3) individual planning, policy, and operational responsibilities within the office are well-defined; and (4) HR activities, metrics, and results are publicized to all concerned HR staff, managers, and the workforce. The Deputy Associate Deputy Administrator for Management and Administration agreed with the recommendations.

SBA Long-Term Objective 4.3

Financial management systems will support both SBA strategic management and financial accountability by providing financial information that is useful, relevant, timely and accurate and which assists SBA in maximizing program performance and accountability.

OIG Audit Report 3-32. *Audit of SBA's Acquisition, Development and Implementation of the Joint Accounting and Administrative Management System*

(Full report at <http://www.sba.gov/ig/03-32.pdf>)

The audit of JAAMS disclosed that mistakes were made from the inception of the JAAMS concept. Initially, the SBA's Business Technology Investment Committee (BTIC) received biased and misleading information on costs, benefits, and alternatives on which to base its decision to select a new financial accounting system. Because the SBA did not require a separation of duties by contractors in the system selection and requirements collection processes, and the design and implementation phase of the JAAMS system, the JAAMS selection process was not free of inherent bias or conflicts of interest toward one competing product.

The SBA implemented an outdated version of the Oracle database management system and not the version that had been demonstrated and approved by the BTIC. Moreover, JAAMS was placed into production without sufficient and complete testing of functions and interfaces. Additionally, the SBA purchased and bought license updates for software modules that it has never implemented.

JAAMS was not fully accredited by the Chief Financial Officer (CFO) prior to being put into production at its permanent site. Other aspects of JAAMS may not allow for complete confidentiality of sensitive SBA personnel information. JAAMS has not fully met Joint Financial Management Improvement

Program (JFMIP) requirements, even though Oracle Federal Financials is certified as being JFMIP compliant. Finally, JAAMS does not meet a number of major system requirements, including many aspects of an Enterprise Resource Planning (ERP) system.

The OIG has reached agreement with the CFO and Chief Information Officer (CIO) on most of the recommendations in the report.

OIG Audit Report 3-34. *Audit of SBA's Compliance with Joint Financial Management Improvement Program Property Management System Requirements*

(Full report at <http://www.sba.gov/ig/03-34.pdf>)

An audit of JFMIP's property Management System Requirements concluded that the SBA's property management system complied with the requirements of the JFMIP in many areas. Nevertheless, we found that the SBA's property management system was not compliant with requirements for feeding property data into the SBA's core financial system and lacked necessary cost control and accountability features. The SBA's property management systems are also fragmented and no single Agency-wide functional system is used. Agency property is managed at multiple locations, using different applications, each with varying degrees of accountability and control. As a result, the SBA does not fully comply with Federal property management requirements and is unable to ensure all of its assets are properly safeguarded. The CFO and the Assistant Administrator for Administration generally agreed with the recommendations.

OIG Audit Report 3-42. *Audit of Travel Card and Purchase Card Controls*

(Full report at <http://www.sba.gov/ig/03-42.pdf>)

This audit found that the SBA lacked adequate controls to ensure that travel cards were used in accordance with applicable laws and regulations. We also found no evidence that purchase card statements in various SBA offices were reviewed by approving officials to ensure that the charges were for authorized purchases.

The Denver Finance Center (DFC) had previously identified only 213 of the 1,968 inappropriate travel card transactions that we identified in our audit. When the DFC did identify potential misuse, the DFC did not always follow through to determine if actual misuse had occurred. As a result, supervisors were not always notified of the inappropriate transaction. We also found that the SBA's internal controls did not ensure that individual accounts were always cancelled or deactivated when an employee left the Agency. There were 264 active travel card accounts maintained by separated employees on July 16, 2002.

We made four recommendations to the CFO and one recommendation to the Assistant Administrator for Administration. The CFO disagreed with one recommendation and did not comment on two. Taking into consideration his staff's concerns, we modified a fourth recommendation. The AA/A agreed with the one recommendation and has taken final action to resolve the matter.

SBA Long-Term Objective 4.4. *Information and related technology will be managed effectively and securely through SBA leveraging data and systems to support program execution and promote cost efficiency.*

OIG Audit Report 3-37. *Independent Evaluation of SBA's Information Security Program*

(Full report at <http://www.sba.gov/ig/03-37.pdf>)

The OIG's Independent Evaluation of the SBA's Information Security Program found that, while the SBA's Information Security Program continues to improve for high priority financial management and general support systems, it continues to have material weaknesses and security vulnerabilities. These weaknesses and vulnerabilities exist in: (1) computer intrusion detection and incident escalation

procedures; (2) security controls in the systems development life-cycle; (3) system access controls; (4) system certification and accreditation; and (5) disaster recovery and contingency planning. This evaluation did not contain any recommendations and will be included as a part of the OIG's Federal Information Security Management Act (FISMA) submission.

Detail Of Final Action Activity Disallowed / Questioned Costs

Report # 2-24, Loss Adjustment Expenses Incurred On Quality Trust, Inc. Bonds

Summary: The audit objective was to determine if 1) the \$91,066 of loss and adjustment expenses claimed by the Gulf Insurance Group were allocable, allowable and reasonable, and 2) the offset of loss and adjustment expenses were appropriate in accordance with SBA regulations. The audit recommended the Office of Surety Guarantees recover \$1,392 from Gulf.

Final Action: \$1,392.00 collected

Report # 3-01, SBA Guaranteed Loan To Webcot Farms and Gin Co., Inc.

Summary: The objective of this audit was to determine if the lender originated, disbursed and liquidated the loan purchased by SBA in accordance with SBA rules and regulations. The audit recommended the Agency seek recovery of \$609,203 for the guaranty paid to Heller First Capital Corporation.

Final Action: \$609,203.00 collected

Report # A1-05, SBA's Use Of Government Cars And Hired Car Services

Summary: The Senate Small Business Committee requested the SBA Office of Inspector General review the Agency's use of hired car services and home-to-work/work-to-home transportation provided to senior SBA officials. The report recommended the Agency seek reimbursement from the former Administrator and Deputy Administrator for any funds inappropriately spent.

Final Action: \$2,108.00 collected / \$13.50 written off.

FUNDS PUT TO BETTER USE

Report # 2-26,

Summary: The purpose of the memorandum report was to bring attention to an area where SBA's Office of Disaster Assistance could improve its procedures for preventing duplication of benefits. The report recommended SBA provide the Federal Emergency Management Agency with information concerning two SBA disaster borrowers who have not returned incorrect disbursements of Individual Family Grant Program funds.

Final Action: \$19,800.00 implemented

Report # 2-35, Early Defaulted Loan To Kalindi LLC/Magnet Properties, LLC

Summary: The audit objective was to determine if the early loan defaults were caused by lender or borrower noncompliance with SBA's requirements. The audit recommended the Administrator deny liability for the loan to Magnet Properties LLC and seek recovery, from the lender, of the principal plus interest and expenses.

Final Action: \$747,308.00 implemented.

Report # 3-07, Early Defaulted Loan To My T Quick, Dallas, Texas

Summary: The audit objective was to determine if the early loan default was caused by lender or borrower noncompliance with SBA's requirements. The audit recommended the Agency request that the lender release SBA from the guaranty due to a failure to use prudent lending procedures.

Final Action: \$377,854.02 implemented

Table III

Final Action On Audit Recommendations Not Completed Within 1 Year

October 1, 2002 – September 30, 2003

Report # 43H006021, 8(a) Continuing Eligibility Reviews

Program: 8(a)

Date Issued: 09/30/94

Management Decision Date: 10/30/94

Explanation: The one remaining recommendation is to the Associate Deputy Administrator for Government Contracting and Minority Enterprise Development to establish procedures for determining whether 8(a) participants should no longer be considered economically disadvantaged based on their ownership interest in their 8(a) firms. SBA believes the current statute provides guidance to address this issue. To ensure proper application, a Procedural Notice is being prepared with specific guidance for evaluating the continued economic disadvantaged status of program participants. The target date for final action has passed, a new target date has not yet been determined.

Report # 87H002017, NOAA Computer Workstation Contracts

Program: 8(a)

Date Issued: 06/18/98

Management Decision Date: 03/1/99

Explanation: The one open recommendation is to the Associate Deputy Administrator for Government Contracting and Minority Enterprise Development to provide definitive guidance and definitions to evaluate the manufacturing criteria in 13 CFR 121.206. A proposed regulation has been developed that includes a new size standard for value added resellers. The regulation was sent to OMB for approval. The Agency also proposed changes to 13 CFR redefining the definition of "manufacturing." These changes will be included in the SBA Size Regulation that is in clearance. The target date for final action has passed, a new target date has not yet been determined.

Report # 9-23, Survey of Electronic Records Management**Program:** M&A**Date Issued:** 09/15/99**Management Decision Date:** 11/30/99

Explanation: This audit has one open recommendation to the Associate Deputy Administrator for Management and Administration to implement an electronic records management program that meets the requirements of 36 CFR 1222, 36 CFR 1228 and 36 CFR 1234. The implementation of an electronic records management program is underway. No timeline is provided in 35 CFR for the establishment of the e-systems element. The program office is currently at an impasse with the OIG audit report and a new target date for final action has not been established.

Report # A1-06, Evaluation Of SBA's Computer Security Program**Program:** OCIO**Date Issued:** 09/28/01**Management Decision Date:** 01/09/02

Explanation: There are three open recommendations. To complete risk assessments and system security plans for SBA's high-priority systems, to correct, mitigate or accept vulnerabilities identified in SBA's risk assessments, and to update SOP 90-47, "Automated Information Systems Security Program." The OCIO is continuing its efforts to complete reviews on the application critical systems, exploring the viability of outsourcing the remaining computer center and has purchased new software to enhance monitoring of the LAN/WAN and Internet activities, and SOP 90-47-1 has been updated and is in final management clearance. Anticipated completion dates for these recommendations vary from December 2003 through December 2004.

Report # 0-14, 7(a) Service Fee Collections**Program:** OCFO**Date Issued:** 03/30/00**Management Decision Date:** 08/22/00

Explanation: The one remaining open recommendation is to establish receivable accounts for 7(a) loan service fees. The Agency's Loan Monitoring System (LMS) will address this issue. The LMS project is currently being reevaluated. The target date for final action has passed, a new target date has not yet been determined.

Report # 0-19, Small Disadvantaged Business Certification Program Obligations and Expenditures**Program:** GC/BD**Date Issued:** 06/30/00**Management Decision Date:** 03/30/01

Explanation: The remaining open recommendation is to seek a basis to require mandatory reimbursement from other agencies to fund the Small Disadvantaged Business Certification program through an Executive Order or amendments to the Federal Acquisition Regulations. The SBA's Office of General Counsel reviewed a memo proposing elevation of this issue to the Deputy Administrator for resolution. This review was completed and given to the program office. The target date for final action has passed, a new target date has not yet been determined.

Report # 0-25, Results Act Performance Measurement For The SBIC Program**Program:** SBIC**Date Issued:** 09/07/00**Management Decision Date:** 12/27/00

Explanation: The one remaining open recommendation is to assert to the accuracy and completeness of performance data, or if data is not currently accurate and complete, explain how the division plans to overcome any quality problems in the future. The resolution of this recommendation requires a change to Part 107 of Title 13 of the Code of Federal Regulations which requires the approval of the Agency and OMB. The anticipated completion date is March 2004.

Report # 0-28, Rhode Island District Advisory Council**Program:** SBA**Date Issued:** 09/29/00**Management Decision Dates:** 12/07/00 & 02/14/01

Explanation: Four recommendations remain open concerning the use of funds raised by the RI Advisory Council and other Advisory Councils. They are to determine whether the funds constituted impermissible augmentation of SBA's appropriations, the proper disposition of funds remaining in the RI Advisory Council's and District Advisory Council checking accounts, and ensure appropriate corrective action is taken. The OIG is working with the OGC to determine how to resolve the audit findings. The target date for final action has passed for two of the recommendations, the target date for the remaining two recommendations is January 2004.

Report # 0-29, Minority Business Enterprise Legal Defense and Education Fund (MBELDEF)**Program:** SDB**Date Issued:** 09/29/00**Management Decision Dates:** 03/26/02 & 03/30/01

Explanation: The two remaining open recommendations are for MBELDEF to reimburse SBA for unsupported expenses, duplicate payments, unrelated expenses and for claimed expenses that were not incurred, and to pay SBA any fees obtained in excess of the \$81,545 reported, if a full accounting shows that not all fees were reported. In October 2002, the OGC prepared a demand letter to recover unsupported expenses.

Report # 0-30, SBA's Administration of the MBELDEF Cosponsorship**Program:** SDB**Date Issued:** 09/30/00**Management Decision Date:** 03/26/01

Explanation: Five recommendations remain open to the Associate Administrator for Business Initiatives (AA/BI) to incorporate safeguards into cosponsorships, require the cosponsorship program official to obtain appropriate training, determine the pro rata share of food costs for non-government attendees versus the amount collected, and ensure the responsible program officials report cosponsorship performance problems to the AA/BI, in accordance with SOP 90 75 2. Additionally, the audit recommends the Associate Deputy Administrator for Government Contracting and Minority Enterprise Development (GC/MED) take steps to ensure that GC/MED employees enforce the terms of cosponsorship agreements. The target dates for final action have passed, new target dates have not yet been determined.

Report # 0-31, Boscart Construction, Inc.**Program:** SDB**Date Issued:** 09/30/00**Management Decision Dates:** 02/26/01 & 03/26/01

Explanation: There are two remaining open recommendations. One is for the Associate Deputy Administrator for Government Contracting and Minority Enterprise Development (GC/MED), in conjunction with the Associate Administrator for Field Operations to reinforce the need for staff involved in the acceptance of 8(a) awards to ensure program participants are in compliance with program requirements. GC/MED SOP 80 05 2 is in clearance and contains restated and emphasized guidance for eligibility reviews prior to contract award. The second open recommendation is for the designated Agency Ethics Official to review the Agency's policies and procedures, ensuring compliance with the Agency's Standard of Conduct Regulations. There are outstanding issues that require consolidation with other departments. The target dates for both final actions have passed, new target dates have not yet been determined.

Report # 1-01, Results Act Performance Measurement For The 7(a) Business Loan Program**Program:** 7(a)**Date Issued:** 12/04/00**Management Decision Dates:** 06/22/01 & 07/18/01

Explanation: Four recommendations remain open to the Associate Administrator, Office of Financial Assistance in coordination with the Director, Office of Policy to develop 7(a) program indicators to gauge mission effectiveness, key outcomes, quality of services and the delivery process, ensure program goals address the entirety of the program's mission, institute a strategy to verify and validate performance measurement data, and assert to the accuracy and completeness of performance data. Target dates for both of these final actions have passed and new target dates have yet to be determined.

Report # 1-09, SBA's Planning and Assessment For Implementing Presidential Decision Directive 63**Program:** OCIO**Date Issued:** 03/26/01**Management Decision Date:** 09/27/01

Explanation: The one remaining open recommendation is to ensure the Chief Infrastructure Assurance Officer revises the Critical Infrastructure Protection Plan to address protection of the Agency's physical minimum essential infrastructure. The actions are partially completed, the OIG is working with Physical Security to resolve their part of this issue. The target date for final action has passed and a new target date has not yet been determined.

Report # 1-11, Results Act Performance Measurement For The Minority Small Business and Capital Ownership Development Program**Program:** 8(a)**Date Issued:** 03/27/01**Management Decision Date:** 09/28/01

Explanation: The three remaining open recommendations are to the Associate Deputy Administrator for Government Contracting and Business Development (GC/BD) to ensure SBA measures the success of the 8(a) Business Development program in accordance with the measure of success prescribed in P.L. 100-656, the Performance Plans include indicators for determining how effectively and efficiently the 8(a) program is operating, and the Performance Plans accurately describe and report performance indicators and data. A Work Group was established to restructure the 8(a) BD program and develop a two stage approach to train and develop program participants. GC/BD is also reviewing the Termination Tracking System to ensure it complies with audit requirements. The target dates for final action have passed and new target dates have not yet been determined.

Report # 1-12, SBA's Information Systems Controls - FY 2000**Program:** OCIO**Date Issued:** 03/27/01**Management Decision Dates:** 07/3/01 & 07/24/01

Explanation: Two recommendations remain open to the Chief Information Officer (CIO). These recommendations are to develop quality control program procedures to periodically review existing applications to assure documentation is kept current and accurately reflects the cumulative effects of program changes made over time, and continue its efforts to identify and eliminate incompatible duties, responsibilities and functions. The office has contracted for support services to finalize the draft procedures and a Notice was issued regarding the separation of duties. The OCIO is also reviewing other documentation to modify it for SBA's environment. The target date for the quality control program recommendation is June 2004. The target date for the other recommendation has passed and a new target date has not yet been determined.

Report # 1-16, SBA's Follow-Up On SBLC Examinations**Program:** CA**Date Issued:** 08/17/01**Management Decision Date:** 09/25/01

Explanation: There are two open recommendations to Capital Access to develop and implement formal procedures for the Small Business Lending Companies (SBLC) examination follow-up process and ensure appropriate corrective actions are taken in a timely manner, and to develop and promulgate internal control standards for the SBLC program similar to those required for non-SBLC lenders subject to financial institution regulators. Awaiting issuance of final regulations for SBLCs. Proposed regulations are expected to be in clearance before the end of calendar year 2003. Final regulations are not expected before December 2003.

Report # 1-19, PLP Oversight Process**Program:** 7(a)**Date Issued:** 09/27/01**Management Decision Date:** 08/27/02

Explanation: The one remaining open recommendation is to revise the scoring for the annual review process to ensure the volume and weighting of point values of other questions does not offset low scores for eligibility and credit quality. The Loan Monitoring System and a new risk based review process addresses this recommendation. This final action is expected to be completed by December 2003.

Report # 1-20, Agreed-upon Procedures Report on Sensitive Payments**Program:** OCFO**Date Issued:** 09/28/01**Management Decision Date:** 12/18/01

Explanation: The one remaining open recommendation is to issue a Procedural Notice to remind SBA offices of the need to follow SOP 20 11 regarding the use and requirements for completion of SBA form 1179. This final action was expected to be completed by November 2003.

Report # 2-04, SBA's FY 2001 Financial Statements**Program:** OCFO**Date Issued:** 02/27/02**Management Decision Date:** 04/17/02

Explanation: The one remaining open recommendation is to develop a process for estimating SBA's ownership in earnings from the MRF that provides accurate, complete and timely data for the financial statements. This final action was expected to be completed by November 2003.

Report # 2-12, Improvements In The SBLC Oversight Process**Program:** OLO**Date Issued:** 03/20/02**Management Decision Date:** 08/27/02

Explanation: There were four open recommendations at the end of fiscal year 2003. To develop a formal policy regarding effective supervisory and enforcement actions, to implement a system similar to that used by bank oversight organizations to assist in establishing lines of authority between the Office of Lender Oversight (OLO) and the Office of Financial Assistance (OFA). Also, for SBA to take appropriate measures to ensure all problematic loans identified during the FY 2001 examinations are properly flagged in the Delinquent Loan Collection System (DLCS), and for OLO to take immediate action to refer all potentially fraudulent loans identified during the FY 2001 examination to the OIG for examination/investigation. Regarding the first two open recommendations, a policy paper was prepared and discussed within Capital Access. A form 606 (to reorganize the office) is now being developed for a final decision. These are expected to be finalized by December 2003. The latter two open recommendations were finalized on October 1, 2003.

Report # 2-17, SBA's FY 2001 Financial Statements - Management Letter**Program:** OCFO**Date Issued:** 04/12/02**Management Decision Date:** 09/18/02

Explanation: The one remaining open recommendation is for the OCFO, in conjunction with Capital Access, to evaluate SBA's Loan Accounting System to determine whether it alone provides adequate access to borrower contact information necessary for servicing loans and financial reporting. The Agency anticipates that electronic reporting of bank data on borrower status will feed a database managed by Capital Access provide the additional borrower location and contract data required. This recommendation is expected to be finalized in September 2005.

Report # 2-18, SBA's Information Systems Controls Fiscal Year 2001**Program:** COO**Date Issued:** 05/06/02**Management Decision Dates:** 06/28/02 & 08/15/02

Explanation: There are four open recommendations remaining, 1) to provide adequate funding and resources to develop and implement technical training for security staff and all network and application security administrators, 2) to develop and implement standard operating procedures for network system and security administrators, 3) to develop and test disaster recovery and business contingency plans on an annual basis, and 4) to enter into an agreement with the third-party mainframe service to correct identified weaknesses and allow periodic reviews of controls by SBA representatives. Automated Information Systems Personnel Notices are in clearance. The OCIO continues to conduct site visits to field offices to document security controls in Major Applications, General Support systems and for physical security. The Agency also completed a hot site test at the Sungard facility in Atlanta, Georgia. The target dates for 3 of the 4 recommendations have passed and new target dates have not yet been determined.

Report # 2-22, Travel Of SBA's Former Region VI Regional Administrator**Program:** OCFO**Date Issued:** 08/07/02**Management Decision Date:** 09/26/02

Explanation: Two recommendations remain open: One is confidential and therefore not being detailed in this report, the other is for the CFO to provide training on relevant travel rules and regulations to all newly appointed authorizing and approving officials within 30 days of their appointment. The OGC is reviewing paperwork related to the confidential recommendation, and GSA eTraining was included in a draft SBA Notice for travel card reissuance.

APPENDIX 2 - STATUS OF GENERAL ACCOUNTING OFFICE RECOMMENDATIONS

STRATEGIC GOAL ONE

Improve the economic environment for small businesses.

Long-Term Objective 1.1

Minimize the regulatory burden on small business through effective advocacy.

None

Long-Term Objective 1.2

Ensure equity and fairness in the Federal regulatory enforcement process.

None

Long-Term Objective 1.3

Minimize the taxation burden on small business through effective advocacy.

None

Long-Term Objective 1.4

Minimize the health care cost burden on small business through effective advocacy.

None

Long-Term Objective 1.5

Simplify the interaction between small businesses and the Federal government through the use of the Internet and information technology.

None

Long-Term Objective 1.6

Increase the opportunities for small businesses to receive open and fair access to Federal contracts.

GAO-01-346 – Federal Procurement: Trends and Challenges in Contracting with Women-Owned Small Businesses

Recommendation: The Administrator should include in SBA's mandated study of industries in which WOSBs are underrepresented sufficient analysis to establish more realistic agency-specific annual goals for prime and subcontracts with WOSBs. Given the Department of Defense's (DOD) predominance in government contracting, SBA could benefit from the active collaboration and support of DOD in performing the study. SBA should also keep Congress informed as it develops a strategy for implementing the new provisions designed to expand federal contracting with WOSBs. In particular, SBA should notify its authorizing and appropriating committees if it determines that its capacity to implement the key provisions of the legislation will be impaired by insurmountable resource constraints.

SBA Updated Response: Federal Procurement Trends and Challenges in Contracting with Women-Owned Small Businesses Closed with SBA Information Notices 8000-587 dated 2-10-2003 and 8000-586 dated 2-10-2003.

STRATEGIC GOAL TWO

Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.

Long-Term Objective 2.1

Increase the positive impact of SBA assistance upon the number and success of small business start-ups.

None

Long-Term Objective 2.2

Maximize the sustainability and growth of existing small businesses assisted by SBA.

GAO-03-90 – SBA: Progress Made but Improvements Needed in Lender Oversight

Recommendation: Continue to explore ways to assist large national lenders to participate in the PLP. These efforts could include further development and implementation of SBA's Lender Liaison program and continued attention to standardizing the PLP certification process and enhancing its transparency, as was done with the development of the Lender Evaluation Worksheet to assist lenders in their interactions with district offices.

SBA Response: SBA is reviewing the issues identified with regard to large national PLP lenders and is considering the best approach to address the issues. SBA believes that the district offices play an important role in lender relations and the Agency is assessing a number of options to assist these lenders.

Long-Term Objective 2.3

Significantly increase successful small business ownership within segments of society facing competitive opportunity gaps.

GAO-01-346 – Federal Procurement: Trends and Challenges in Contracting with Women-Owned Small Businesses

Recommendation: The Administrator, Small Business Administration (SBA), should direct the new Office of Federal Contracting Assistance for Women Business Owners to evaluate the benefits and effects of the suggestions for increasing federal contracting with WOSBs that surfaced in this review. These include the implementation of agency mentor-protégé programs that include WOSBs, of measures to facilitate teaming arrangements and expand contract financing, as well as the exploration of initiatives to consolidate and improve the efficiency and effectiveness of outreach efforts. Another issue worthy of further study is the extent to which pressures on the acquisition workforce may be contributing to contracting practices that reduce opportunities for small businesses. These actions are consistent with the broad authority as well as specific direction given to SBA under the recent executive order. Any of the suggestions deemed feasible should be considered for implementation.

SBA Updated Response: On May 23, 2003, SBA issued a letter contract to the National Academies, Division of Behavioral and Social Sciences and Education to conduct a technical review of the preliminary draft study to address methodological issues. They will report their conclusions and findings within 9 months. We can't address next steps until we receive their report.

GAO-00-196 – SBA Could Better Focus its 8(a) Program to Help Firms Obtain Contracts

Recommendation: To better address the purpose of the 8(a) program, meet the needs and expectations of the firms in the program, and improve SBA's ability to determine how well the program is working, the Administrator, SBA, should instruct the district offices to place their highest priority on helping inform firms about contracting opportunities, assisting firms with contacts at federal agencies, and becoming more involved with firms as they seek and negotiate contracts.

SBA Response: To emphasize the 8(a) program, SBA put goals in place for its district offices for fiscal year 2001 to assist 8(a) firms in obtaining contracts. Each SBA district office had a new goal to ensure that a certain percentage of 8(a) firms that have been in the program since 1998 or before, received a contract by September 30, 2001. In addition, each district office was required to conduct at least one procurement training course to help their 8(a) firms better understand how to compete for federal contracts. Firms are also told during their training sessions that they can request assistance with contacts at federal agencies and in negotiating contracts. However, SBA officials said they did not yet have information on the impact of the new goal and training requirement and also said that they were unsure whether the goal would be continued because district office goals are currently under review.

GAO-00-196 – SBA Could Better Focus its 8(a) Program to Help Firms Obtain Contracts

Recommendation: To better address the purpose of the 8(a) program, meet the needs and expectations of the firms in the program, and improve SBA's ability to determine how well the program is working, the Administrator, SBA, should periodically perform a nationwide sample survey of 8(a) firms to obtain measurable program data. At a minimum, the survey should assess whether SBA assistance is meeting the firms' expectations and needs.

SBA Response: SBA stated that they developed a survey to obtain measurable program data from 8(a) firms, district offices, and federal agencies to gather data on the impact and results of 8(a) business development assistance patterns and on customer satisfaction. However, SBA officials said that they did not receive specific funding in fiscal year 2001 to continue their efforts. In addition, they said that they lengthy transition period SBA experienced with the new Administration impacted progress on this initiative.

GAO-00-196 – SBA Could Better Focus its 8(a) Program to Help Firms Obtain Contracts

Recommendation: To better address the purpose of the 8(a) program, meet the needs and expectations of the firms in the program, and improve SBA's ability to determine how well the program is working, the Administrator, SBA, should provide a method for collecting data on each firm's training needs for tracking the assistance provided.

SBA Response: SBA piloted a Business Assessment Tool in 1999 to evaluate 8(a) firms' business development needs and then integrated the tool into its Strategic Information Technology Plan, a plan that SBA developed to upgrade all of the business processes and systems in support of the programs in the Office of Government Contracting and Minority Enterprise Development. SBA officials said that they presented the plan in November 2000 to the Investment Council and, on August 21, 2001, the plans were approved to be included for funding in fiscal years 2002 and 2003.

GAO-00-196 – SBA Could Better Focus its 8(a) Program to Help Firms Obtain Contracts

Recommendation: The Administrator, SBA, should reassess the agency's use of 7(j) Management and Technical Assistance Program funding. The reassessment should consider whether to devote most of the 7(j) program's funding to training designed to develop the abilities of 8(a) firms to obtain contracts or to retain the current business development focus but restrict the training to firms with a demonstrated need.

SBA Response: SBA said that has required each district office to conduct at least one procurement training course to help their 8(a) firms better understand how to compete for federal contracts. Additionally, SBA stated that as part of their efforts to seek ways to maximize the impact of their limited 7(j) training budget, they currently have a solicitation out for request for proposals from firms that wish to provide procurement training to 8(a) firms.

STRATEGIC GOAL THREE

Restore homes and businesses affected by disaster.

Long-Term Objective 3.1

Maximize the timely restoration of businesses and homes following disaster.

GAO-03-385 – SBA: Response to September 11 Victims and Performance Measures for Disaster Assistance

Recommendation: Administrator should direct the Office of Disaster Assistance to revise the performance measures for disaster lending to (1) include more outcome measures; (2) assess more significant outputs, such as service to applicants or loan underwriting; (3) report achievements that can be compared over several years, such as percentages; and (4) include performance targets that encourage process improvement rather than maintaining past levels of performance.

SBA Updated Response: Two recent customer service surveys have been completed. The broader survey included questions regarding the ODA's Strategic Plan. The broader survey, new this year, includes questions regarding the new strategic goals and outcome measures. The ACSI survey is consistent with the revised Strategic Plan which links individual, business unit and office performance to the new plan and goals. The expanded survey and the Strategic Plan were completed by the end of FY '03.

GAO-03-385 – SBA: Response to September 11 Victims and Performance Measures for Disaster Assistance

Recommendation: The Administrator should revise and expand its current research to improve its measures and evaluate program impact. To improve its current measures, SBA should conduct research, such as surveying Disaster Area Office staff and reviewing the disaster, lending, and performance literature, to identify and test new outcome measures. To evaluate its program impact, SBA needs to revise its survey approach to survey all disaster loan applicants and to employ other methods, such as periodic analyses of regional statistics, to assess the economic impact of the program on local communities.

SBA Updated Response: Two recent customer service surveys have been completed. The broader survey included questions regarding the ODA's Strategic Plan. This plan, new this year, includes questions regarding the new strategic goals and outcome measures. The ACSI survey is consistent with the revised Strategic Plan which links individual, business unit and office performance to the new plan and goals. The expanded survey and the Strategic Plan were completed by the end of FY '03.

GAO-03-385 – SBA: Response to September 11 Victims and Performance Measures for Disaster Assistance

Recommendation: The Administrator should revise the disaster section of the performance plan to (1) establish direct linkages between each output and outcome and the associated performance measure; (2) accurately describe proxy measures as either an outcome or output measures; (3) accurately describe the validation and verification of performance measures; and (4) explain additions, deletions, or changes in the current goals or measures used from the previous year.

SBA Updated Response: Two recent customer service surveys have been completed. The broader survey included questions regarding the ODA's Strategic Plan. The broader survey, new this year, includes questions regarding the new strategic goals and outcome measures. The ACSI survey is consistent with the revised Strategic Plan which links individual, business unit and office performance to the new plan and goals. The expanded survey and the Strategic Plan were completed by the end of FY '03.

Long-Term Objective 3.2

Provide courteous and professional customer service.

None

STRATEGIC GOAL FOUR

Ensure that all SBA programs operate at maximum efficiency and effectiveness by providing them with high-quality executive leadership and support services.

Long-Term Objective 4.1

SBA's general planning and management will result in clearly defined goals and effective strategies, and the coordination of operational support, so as to maximize the Agency's mission performance through a comprehensive performance management system.

GAO-03-90 – SBA: Progress Made but Improvements Needed in Lender Oversight

Recommendation: Provide, through regulation, clear policies and procedures for taking enforcement actions against preferred lenders and SBLCs in the event of continued noncompliance with SBA's regulations. Specifically, the Administrator of SBA should adopt regulations that would clearly define SBA authority to take enforcement actions and specify conditions under which supervisory actions would be taken.

SBA Response: SBA does have clear policies and procedures for taking certain enforcement actions. Policies and procedures are drafted

GAO-01-192 – SBA: Actions Needed to Strengthen SBLC Oversight

Recommendation: The Administrator should ensure that SBA provides, through regulation, clear policies and procedures for taking supervisory actions. Specifically, if SBA determines that it does have the necessary statutory authority, the Administrator of SBA should develop and adopt SBLC regulations that would clearly define SBLC authority to take supervisory actions and specify conditions under which supervisory actions would be taken. If SBA determines that it does not have necessary statutory authority, the Administrator of SBA should make a legislative proposal to ensure that the agency has the supervisory authorities necessary to direct and enforce corrective action of conditions that may not merit a suspension or removal of lending status.

SBA Response: Legislative proposal submitted for FY 04 reauthorization – see attached.

Long-Term Objective 4.2

SBA will recruit, sustain and effectively deploy a skilled, knowledgeable, diverse workforce and executive cadre capable of executing high quality programs and activities that meet current and emerging needs of its customers.

None

Long-Term Objective 4.3

Financial management systems will support both SBA strategic management and financial accountability by providing financial information that is useful, relevant, timely and accurate and which assists SBA in maximizing program performance and accountability.

GAO-03-87 – SBA: Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain

Recommendation: That the Administrator conduct a more comprehensive evaluation of the loan sales' impact on the agency and the cost savings from the sales.

SBA Response: The SBA will conduct a more comprehensive evaluation of the loan sales' impact on the SBA and cost savings from the sales. The SBA is transforming itself to better provide its services to more small business segments, and to effectively oversee the Agency's partners in its financial and entrepreneurial assistance programs. As part of this transformation, the SBA's lending partners are assuming greater responsibility for the making and servicing of SBA guaranteed loans, and the SBA has sold \$5.1 billion of loans through its loan sale program. The transformation of the SBA from loan program operation to the monitoring and oversight of its lending programs, however, is a gradual change that is still underway. An evaluation of the cost savings from loan asset sales will be conducted this year.

GAO-03-87 – SBA: Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain

Recommendation: Administrator should develop procedures for documenting and processing inquiries and complaints from borrowers, and provide guidance to the field offices about implementing them.

SBA Response: A procedural notice will be issued soon that will provide Agency field personnel with a uniform process for handling borrower inquiries and complaints. In addition, the SBA will: (1) Establish an electronic mail account for use by all employees to record and forward borrower comments to our Asset Sales Team in Washington DC; (2) Establish a database to maintain and track these borrower comments; and (3) Implement enhancements to a tracking system used for residential borrower inquiries that is maintained in our Santa Ana, CA servicing center.

GAO-03-87 – SBA: Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain

Recommendation: Before conducting additional loan asset sales, correct the errors in SBA's loss calculation for loan sales one through five, and adjust the fiscal years 2000 and 2001 financial statements.

SBA Response: The SBA's FY 2002 financial statements, issued on January 31, 2003, included and adjustment to the loss sale calculations by including the interest and other components of the credit program subsidy rates, as well as the default component, in the write down of performing loans sold, as recommended by GAO. The SBA also adjusted the book value of the previously defaulted loan guarantees to reflect the anticipated recovery value, as recommended by GAO. These adjustments were also made in the FY 2001 comparative statements included with the SBA's FY 2002 financials. The SBA will include the same adjustments when it reissues its FY 2000 financial statements. As a result, the SBA has substantially completed the action necessary to respond to this recommendation.

GAO-03-87 – SBA: Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain

Recommendation: Before conducting additional loan asset sales, perform the necessary analysis to assess the effect of loan sales on the reestimates, to determine whether the cash flow assumptions in SBA's model reasonably predict future loan performance.

SBA Response: An intensive effort is underway to perform the necessary analyses to assess the effect of loan sales on the reestimates and to determine whether cash flow assumptions in SBA's model reasonably predict future loan performance. The SBA has retained the expert assistance of IBM consultants to determine the accuracy of subsidy reestimates for the disaster loan program, including the effect of loan sales, and to determine and implement the changes to reestimation procedures necessary to improve their accuracy. The Agency plans to complete the work to implement necessary improvements in the FY 2003 subsidy reestimates.

GAO-03-87 – SBA: Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain

Recommendation: Before conducting additional loan asset sales, perform the necessary analysis to determine and correct the cause of the unexplained decline in the subsidy allowance account, and make the relevant adjustments to fiscal years 2000 and 2001 financial statements, as appropriate.

SBA Response: The SBA is currently performing the analysis to determine and correct the cause of the decline in the disaster allowance account, and to make the relevant adjustments. Based on SBA's analysis, the balance in the disaster subsidy account is supported by credit program activity that has been properly recorded in the Agency's accounting records. This activity includes credit subsidy estimates, annual subsidy reestimates, loan charge-offs, and recoveries. Intensive analysis of the disaster program subsidy estimates and reestimates is now being conducted by SBA with the assistance of IBM consultants. SBA plans to complete work to address the decline in the disaster subsidy allowance account for FY 2003 financial reporting, and the Agency will make any necessary adjustments in the FY 2000 and FY 2001 financial statements when the statements are reissued.

GAO-03-87 – SBA: Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain)

Recommendation: That the Inspector General, in conjunction with SBA's financial statement auditors, assess the impact of any identified errors in the financial statements and determine whether previously issued audit opinions for the fiscal years 2000 and 2001 financial statements need to be revised.

SBA Response: The SBA's Inspector General and financial statement auditor ultimately determined that the "previously issued audit opinions for the fiscal years 2000 and 2001 financial statements need to be revised." The SBA received a notification from its financial statements auditor on December 20, 2002 that "because of the possibility that material adjustments may be necessary for disaster loans" the financial statements and reports for FY 2000 and FY 2001 should no longer be relied upon. The SBA notified its congressional committees on January 8, 2003 of this determination by its financial statement auditor. Accordingly, this recommendation has been satisfied.

GAO-03-90 – SBA: Progress Made but Improvements Needed in Lender Oversight

Recommendation: Incorporate strategies into SBA's review process to adequately measure the financial risk lenders pose to SBA, develop specific criteria to apply to the credit elsewhere standard, and perform qualitative assessments of lenders' performance and lending decisions.

SBA Response:

Measure the financial risk lender's pose to SBA. On April 2nd 2003, SBA executed a contract with Dun and Bradstreet in partnership with Fair Isaac to provide loan and lender monitoring and oversight services. At the core of the services D&B is providing is regular credit scoring of the individual loans in SBA's portfolio to assess to probability of loan purchase. On June 23rd, D&B provided the first major deliverable under the contact – a data base of SBA's loans with a small business credit score. This information will be used for lender reviews and oversight. The scores are currently being validated by D&B/Fair Isaac for SBA loans and the services are being customized for SBA's specific needs. Complete and comprehensive services are scheduled for delivery on September 30, 2003. The credit scoring information will be used along with existing performance benchmarks and review results to assess the level of risk a lender represents to SBA.

In addition, as discussed in SBA's prior response to GAO, the safety and soundness examinations of Small Business Lending Companies (SBLCs), conducted on SBA's behalf by the Farm Credit Administration, will continue. These examinations identify the financial risks these lenders pose to SBA. A primary component of the examinations is an asset quality review that assesses financial risk. Since SBLCs generally hold approximately 20% of SBA's 7(a) loans, these examinations assess financial risk on a significant portion of SBA's guaranteed loan portfolio.

Develop specific criteria to apply to the credit elsewhere standard. SBA reiterates its position that existing statutes, regulations, policies and procedures provide specific guidance to lenders. Specifically, sections 3(h) and 18(b)(2) of the Small Business Act, SBA regulations at 13 CFR Sections 120.101 and 120.102, and SBA SOP 50 10(4)(E) provide SBA's guidance in this area.

Perform Qualitative Assessments of Lender's Performance and Lending Decisions. SBA has developed and is testing a risk based review process that moves from a compliance review approach to determine qualitatively how well a lender makes, manages and liquidates SBA loans. The risk based review approach will be fully implemented by September 30, 2003.

Long-Term Objective 4.4

Information and related technology will be managed effectively and securely through SBA leveraging data and systems to support program execution and promote cost efficiency.

GAO-00-197 – SBA's 8(a) Information System is Flawed and Does Not Support the Program's Mission

Recommendation: The Administrator, SBA, should ensure that her staff, upon entering the planning phase of the 8(a) information systems modernization effort, design an integrated information system that provides a method for collecting data on appropriate performance measures, focusing on the

assistance provided for 8(a) firms in addition to the number of 8(a) contracts awarded.

SBA Response: SBA program officials acknowledge that SACS/MEDCOR (make up the Servicing Contracting System and the Minority Enterprise Development Central Office Repository) does not currently have a method to systematically track the training and assistance that 8(a) firms receive.

While the 8(a) BD program provides myriad benefits to firms in the form of training, assistance with contract negotiations, guidance with business plans, and general business strategies, there is no systematic, centralized method to track and assess the value of such training.

Accordingly, the strategic IT plan addresses these concerns by including a training component that will track training needs, track training provided, and assess the benefits of such training.

GAO-00-197 – SBA's 8(a) Information System is Flawed and Does Not Support the Program's Mission

Recommendation: The Administrator, SBA, should ensure that her staff, upon entering the planning phase of the 8(a) information systems modernization effort, design an integrated information system that takes advantage of the links to existing federal contract information sources, such as the Federal Procurement Data System, to minimize (1) the reporting responsibilities of contracting agencies and (2) data entry duties required at the district office level.

SBA Response: SBA program officials acknowledge they can no longer ensure that 8(a) contract award information in the SACS/MEDCOR system is complete and accurate. In some cases, the rate of reporting from procuring activities is as low as 50 percent in total awards. The cause of this decrease is a recent change in the way that contracting activities interact with and report back to SBA when contracts are awarded.

Though agencies must report information to the federal Procurement Data System (FPDS) and to SBA on contracts over \$25,000, the agencies often fail to provide SBA with copies of contracts, or even contract award information.

Recognizing this problem, the 8(a) BD program has begun going directly to FPDS to obtain contract data to prepare our annual report to Congress. However, matching SACS/MEDCOR to the FPDS records is difficult, labor-intensive and can result in mismatched records.

Accordingly, the strategic IT plan addresses these concerns by designing an integrated information system that takes advantage of established data to minimize reporting and data entry. This will minimize the laborious, redundant data entry at the district office level.

GAO-00-197 – SBA's 8(a) Information System is Flawed and Does Not Support the Program's Mission

Recommendation: The Administrator, SBA, should ensure that her staff, upon entering the planning phase of the 8(a) information systems modernization effort, design an integrated information system that is designed in light of current software and data management development procedures and business processes and allows maximum flexibility and ease of use by all levels of staff.

SBA Response: SBA program officials acknowledge the SACS/MEDCOR system can include errors, out-of-date data, and other anomalies. These issues can be manifested as inconsistencies in designations of ownership and management, errors in address and other contact information, and duplicate records.

Additional problems can occur when tracking a firm's progress over time. Program managers acknowledge some processes are difficult to perform, such as changing a firm's name, tracking progress in attaining business plan goals, or developing "tickler files" for other administrative processes.

Accordingly, the strategic IT plan addresses these issues by designing a system that uses current software and data management processes, is easier for all staff to use, and that allows for the maximum amount of flexibility of uses.

GAO-00-197 – SBA's 8(a) Information System is Flawed and Does Not Support the Program's Mission

Recommendation: The Administrator, SBA, should ensure that her staff, upon entering the planning phase of the 8(a) information systems modernization effort, design an integrated information system that is protected at all levels by appropriate security controls, which are specifically addressed in up-to-date Standard Operating Procedures. In the interim, SBA should not continue to require 8(a) district staff to enter contracting information into the current system.

SBA Response: SBA program officials acknowledge that SACS/MEDCOR could be more secure (although to date, there have been no security breaches) and that few material improvements have been made in several years (though the system still serves its general purpose of tracking basic Participant information). Additionally, for people who do not have adequate training, the system can be difficult to use.

Additionally, in the recent past, the 8(a) BD program has started initiatives that were not completed. Among those initiatives were the automation of the 8(a) application, an automated business assessment tool (BAT), and other modernization efforts.

Accordingly, the strategic IT plan addresses these issues by designing a system that is protected at all levels by appropriate security controls, which are addressed in an updated procedures manual, using an automated application to enter the 8(a) program, and consolidating all 8(a) information sources into one system.

GAO-03-90 – SBA: Progress Made but Improvements Needed in Lender Oversight

Recommendation: Separate lender oversight functions and responsibilities from the Office of Capital Access, including those currently done by the Office of Financial Assistance, such as responsibility for revoking preferred lender status and establish clear authority and guidance for the Office of Lender Oversight, or its successor office, that states, as a minimum, its program responsibilities and planned staffing for those responsibilities. This would provide an oversight office with greater autonomy within SBA to match the growing importance of lender oversight in achieving SBA's goal of ensuring that PLP lenders make loans to eligible borrowers while properly managing the financial risk to SBA.

SBA Response: SBA reiterates its position that by creating an Office of Lender Oversight separate from the Office of Financial Assistance, with both executives reporting to the Associate Deputy Administrator for Capital Access, that OLO has adequate independence. Moreover, there is a significant benefit to the two offices working in concert which the present organizational structure allows. SBA is drafting policies and procedures governing OLO's program responsibilities.

Long-Term Objective 4.5

Procurement and contracting services will be planned and managed to support SBA program management and the achievement of the Agency's goals.

None

APPENDIX 3 - OIG REPORT ON THE SBA MOST SERIOUS MANAGEMENT CHALLENGES

The Office of the Inspector General (OIG) identifies SBA's top management challenges and annually publishes a yearly report with recommendations for corrective action on the SBA Performance and Accountability Report and on the SBA website. The OCFO tracks the challenges and the corrective actions taken during the fiscal year.

Each challenge in the report specifies the corrective actions required. The OCFO sends a quarterly request to the program offices, for updated information on current measures taken for completion of the corrective action. Information provided by the program offices is placed on the SBA Intranet, and reviewed quarterly by the OIG. In addition, the OCFO places the result of the OIG's assessment on the SBA Intranet. This working coordination has proved beneficial to the SBA by allowing a clear understanding between the OIG and SBA management.

An additional step was initiated in 2003 in order to further strengthen the effectiveness of the interaction between the OIG and the SBA. Before issuing the yearly report, the OIG met with each of the SBA offices having responsibility for implementing the corrections. There was full discussion of the action plans, a thorough review of progress to date, and a good understanding was reached on how to achieve additional improvements and the specific steps needed. The SBA has taken major strides toward corrective actions on the recommendations made by the OIG in FY 2003 that the OIG has evaluated in its December 2003 report.

The OIG provided SBA management its Report on the Most Serious Management Challenges Facing the Small Business Administration in Fiscal Year (FY) 2004, Report Number: 4-xx, as of December 30, 2003. A copy of that report is included in this appendix and is available at <http://www.sba.gov/ig/igreadingroom.html> by selecting Top Management Challenges.

The SBA took major strides toward meeting its management challenges during FY 2003 by making substantial progress or fulfilling the corrective actions recommended by the OIG in the FY 2002 report. This is reflected by the status in a number of them moving to yellow or green. Included in Appendix V Long-Term Objective is a summary of the corrective actions taken by the SBA during FY2003.

U.S. SMALL BUSINESS ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

*Report on the Most Serious Management Challenges
Facing the Small Business Administration*

JANUARY 2004



U.S. Small Business Administration
Washington, D.C. 20416

**OFFICE OF
INSPECTOR GENERAL**

December 30, 2003

MEMORANDUM

TO: Hector V. Barreto
Administrator

FROM: Harold Damelin
Inspector General

SUBJECT: SBA's Top Management Challenges for Fiscal Year 2004

In accordance with the Reports Consolidation Act of 2000, we are providing the Office of Inspector General's (OIG) Report on the Most Serious Management Challenges Facing the Small Business Administration (SBA) in Fiscal Year (FY) 2004. We have provided our current assessment of Agency programs or activities that pose significant risks, including those that are particularly vulnerable to fraud, waste, error, or mismanagement. The challenges are not presented in order of priority – we believe that all are critical management issues facing the Agency.

Our report is based on specific OIG, General Accounting Office (GAO), or other official reports, as well as our general knowledge of SBA's programs. Our analysis considers Agency actions through December 1, 2003.

This year's report contains one new challenge, which deals with the need for SBA to update its directives system in order to provide proper guidance and controls over Agency operations. In addition, Challenge 9 has been updated to focus on fraud committed by loan agents.

While SBA has made progress on many of the challenges, much remains to be done. By their nature, the top challenges require long-term commitment and attention by the Agency. We have only recently seen a rising level of attention placed on some of the challenges. While this is encouraging, SBA needs to continue to expand its efforts to address these critical issues.

This report will be incorporated into the SBA's FY 2003 Performance and Accountability Report, as required by law. Please contact me at (202) 205-6586, should you have any questions.

Table of Contents

Transmittal Memorandum	i
Table of Contents	ii
Challenge 1. SBA needs to improve its managing for results processes and performance data. ..	1
Challenge 2. SBA faces significant challenges in financial management and reporting which affects its ability to provide reliable, timely and accurate financial information.	2
Challenge 3. Information systems security needs improvement.	3
Challenge 4. Maximizing program performance requires that SBA fully develop, communicate and implement a human capital management/transformation strategy	4
Challenge 5. SBA needs better controls over the business loan purchase process.....	5
Challenge 6. SBA needs to continue improving lender/participant oversight.....	6
Challenge 7. The Section 8(a) Business Development program needs to be modified so that more participating companies receive access to business development and standards for determining economic disadvantage are clear and objective, so that more eligible companies receive 8(a) contracts.	7
Challenge 8. SBA needs to clarify its rules intended to deter Section 8(a) Business Development participants from passing through procurement activity to non-Section 8(a) Business Development firms.....	8
Challenge 9. Preventing loan agent fraud requires additional measures.	9
Challenge 10. SBA needs to update its system of directives to provide proper guidance and control over its operations (<i>New</i>).....	10
Appendix 1: Relevant Reports	12

Challenge 1. SBA needs to improve its managing for results processes and performance data.

The Government Performance and Results Act of 1993 (GPRA) was passed in order to improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction. Reliable performance data that measures the results of SBA programs and the related costs of delivering those results are the cornerstone of an effective performance-based results-driven organization. However, SBA has not fully implemented performance-based management processes that use cost information to monitor and manage program activities and ensure that intended results are achieved efficiently and effectively. For example, OIG audits and inspections found that SBA's performance measures had not been well defined and had not been properly integrated into the Agency's budget submissions and the management and operation of the Agency. In addition, SBA could not ensure the accuracy and reliability of its performance data for major Agency programs.

The OIG believes that the Agency has made progress toward this challenge in the last year. SBA has recently adopted a revised Strategic Plan, developed output and outcome measures, and implemented a mechanism – an Intranet application, “SBA Execution Scorecard” – to report on the status of measuring its performance. However, the Agency needs to make greater efforts in verifying and validating data and ensuring that its resources are monitored and aligned with its recently adopted Strategic Plan.

Actions Needed	Progress
<i>Top management provides positive and supportive attitude toward performance-based management focused on managing for results.</i>	
Top management provides leadership to coordinate the Agency's managing for results program and commits sufficient resources to support the leadership effort.	Yellow
Strategic plan is ratified and reflects top management's vision and direction.	Green
• Appropriate Agency program goals and objectives are established.	Green
• Appropriate performance measures and indicators are established.	Green
• Program managers support SBA's strategic plan, performance goals, and objectives.	Yellow
• Training programs are provided to managers and others responsible for implementing the performance results requirement.	Yellow
Management provides adequate resources to support processes necessary to have an effective performance-based and results-driven operation.	Yellow
<i>SBA analyzes risks associated with achieving objectives.</i>	
SBA periodically assesses the risk that it may not achieve its goals, and results are used to redirect performance to enhance the successful attainment of goals.	Yellow
Performance outcomes are regularly measured and reflect results attributable to Agency programs and services delivered.	Yellow
<i>Policy and procedures provide guidance to ensure consistency among organizational components.</i>	
Policies and guidelines for developing performance goals, objectives, and measures, and verifying and validating data, are published.	Green
<i>Information is recorded and communicated to management and others who need it to fulfill their oversight and stewardship responsibilities.</i>	
Managers have and use operational and financial data to assess their progress in meeting Agency goals and to ensure accountability for effective and efficient use of resources.	Yellow

Green-Implemented Yellow-Progress being made Red-Not implemented/no substantial progress

Challenge 2. SBA faces significant challenges in financial management and reporting which affects its ability to provide reliable, timely and accurate financial information.

Various laws and regulations place significant responsibilities on Federal financial managers to assess whether they are effectively and efficiently managing public resources. During FYs 2002 and 2003, OIG, GAO, and SBA's external auditor all noted an increased number of material weaknesses that resulted in the Agency being unable to produce reliable, timely, and accurate financial information, including its annual financial statements and the results of past loan asset sales.

The Agency has taken steps to improve its financial management; however, these efforts have been focused primarily on improving controls over financial statement preparation. SBA still needs to develop and implement improvements to other aspects of its financial management, including accounting for loan asset sales, the disaster subsidy estimate process, and accounting for the Master Reserve Fund (MRF).

The Office of the Chief Financial Officer (OCFO) had actions in process or completed as of December 1, 2003, that were aimed at overcoming this challenge. Although preliminary reviews of these actions indicate that significant progress has been made, the December 1st cut-off date for this report did not allow the external auditor and OIG to fully assess whether the corrective actions will result in SBA overcoming its financial management and reporting challenges.

Actions Needed	Progress
<i>SBA's financial reporting process provides complete, reliable, and timely financial management information.</i>	
OCFO produces complete, reliable, and timely financial statements that are prepared in accordance with OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements.	Red
<ul style="list-style-type: none"> SBA's core financial system is able to provide complete, reliable, timely and consistent financial management information. 	Red
<ul style="list-style-type: none"> SBA meets all deadlines for financial reporting. 	Red
<ul style="list-style-type: none"> SBA documents all aspects of its financial reporting process. 	Yellow
<ul style="list-style-type: none"> SBA maintains strong internal control over the financial reporting process to avoid submitting financial statements with misclassifications and errors. 	Yellow
<i>SBA maintains proper accounting for and accountability of the MRF.</i>	
SBA fully accounts for the MRF in accordance with all Federal accounting regulations.	Yellow
SBA utilizes statistically valid tools to measure the financial position of the MRF.	Yellow
<i>SBA maintains control over all aspects of the loan accounting and budgeting processes.</i>	
SBA revises the approach to estimate cash flows for the disaster loan program.	Yellow
SBA adheres to the requirements of Federal Financial Accounting and Auditing Technical Release No. 3.	Yellow
SBA properly accounts for loan asset sales in accordance with all Federal accounting and budget regulations.	Yellow
<ul style="list-style-type: none"> SBA investigates and corrects all known errors made in the accounting and budget records from previous loan sales. 	Yellow
<ul style="list-style-type: none"> SBA performs the necessary analysis to assess the effects of loan sales on the subsidy re-estimates to determine whether cash flow assumptions in SBA's subsidy rate model predict future loan performance. 	Yellow
<ul style="list-style-type: none"> SBA performs the necessary analysis to determine and correct any unexplained decline in the subsidy allowance account. 	Yellow
SBA utilizes a well-documented and tested automated methodology for accumulating cash flows necessary for subsidy calculations.	Yellow
SBA fully implements quality assurance procedures over the subsidy re-estimation process.	Yellow

Green-Implemented Yellow-Progress being made Red-Not implemented/no substantial progress

Challenge 3. Information systems security needs improvement.

The confidentiality, integrity, and availability of SBA's information systems are vital to the continued successful operation of the Agency. While information technology can result in a number of benefits, such as information being processed more quickly and communicated almost instantaneously, it also increases the risk of fraud, inappropriate disclosure of sensitive data, and disruption of critical operations and services. SBA's information systems do not have the necessary controls to fully ensure their security.

The Chief Information Officer (CIO) is responsible for all facets of enforcing computer security, enterprise architecture, and systems development standards for SBA's 38 major information systems. While the Agency has corrected a number of information security vulnerabilities, its commitment of direct resources to improve computer security, provide technical staff support, and develop security training has been declining. The continuing strain on computer security resources may ultimately result in further weakening of a computer security program that already lacks sufficient controls to fully protect SBA's systems. Also, because of the long-term nature of implementing a security program, completion of final action on some of the recommendations is not scheduled until the FY 2004 to FY 2005 time frame or beyond. The OIG will be performing further audit work to evaluate the Agency's ongoing efforts in its information security program.

Actions Needed	Progress
<i>SBA's information systems have the necessary general and application controls to fully protect their security.</i>	
Entity-wide security program controls are in-place and operating effectively.	Yellow
Access controls are in-place and operating effectively.	Yellow
Application software development and program change controls are in-place and operating effectively.	Yellow
System software controls are in-place and operating effectively.	Yellow
Segregation of duty controls are in-place and operating effectively.	Yellow
Service continuity controls are in-place and operating effectively.	Yellow
Application authorization controls are in-place and operating effectively.	Yellow
Application completeness controls are in-place and operating effectively.	Yellow
Application accuracy controls are in-place and operating effectively.	Yellow
Application integrity of processing and data file controls are in-place and operating effectively.	Yellow
<i>SBA fully complies with the Federal Information Security Management Act (FISMA).</i>	
Material weaknesses in SBA's computer security program are being addressed and corrected.	Yellow
The SBA's Plan of Actions and Milestones (POA&M) accurately reports on all computer security weaknesses and corrective actions.	Yellow
The SBA Administrator has clearly set forth FISMA responsibilities and authorities.	Green
SBA complies with its Capital Asset and Investment Control Program.	Green
The SBA Administrator ensures that the computer security program is practiced throughout the life-cycle of each agency system.	Red
SBA integrates its information security program with its critical infrastructure program.	Green
SBA has identified its critical operations and assets and further defined the interdependencies and interrelationships of those operations and assets.	Yellow
Procedures and practices for reporting security incidents are in place and operates effectively.	Green
SBA has assessed risks to operations and assets under its control, maintains security plans and performs security tests and evaluation procedures.	Yellow
SBA has adequately maintained an agency-wide information security program.	Yellow
SBA ensures adequate and up-to-date computer security program training.	Green
SBA integrates security into capital planning and investment control.	Yellow

Green-Implemented Yellow-Progress being made Red-Not implemented/no substantial progress

Challenge 4. Maximizing program performance requires that SBA fully develop, communicate and implement a human capital management/transformation strategy.

As small business practices, products, and needs have changed in the last decade, SBA has made major modifications in its delivery of goods and services and has begun making significant changes in the structure of its workforce. To respond to these external and internal changes, SBA developed a Human Capital Management Plan. This plan, however, deals primarily with specific Office of Human Capital Management (OHCM) activities instead of providing a comprehensive workforce transformation strategy. For example, the Human Capital Management Plan generally lacks specific strategies and milestones for moving SBA to the new vision posed in SBA's FY 2003-2008 Strategic Plan. This lack of a documented transformation strategy impedes accountability.

Over the last year, OHCM has made progress in providing the Agency with the support and tools it needs for transforming SBA's workforce and SBA is making some progress in this transformation. However, employees have not been made aware of major changes that will affect them until after the changes have already been implemented. The lack of Agency employee involvement in the decision-making process and the timely communication of a transformation strategy can breed uncertainty and mistrust, resulting in poor employee morale and reduced commitment and productivity.

Actions Needed	Progress
Develop, communicate to all employees, and implement a Human Capital Plan which (1) is structured along the lines of the <i>Human Capital Assessment and Accountability Framework</i> (released jointly by the Office of Management and Budget, the Office of Personnel Management and the General Accounting Office) and (2) contains clear customer service standards.	Yellow
Communicate to all employees and incorporate into the Human Capital Plan a workforce transformation strategy that aligns with SBA's FY 2003-2008 Strategic Plan.	Red
Identify and analyze the knowledge, skills, abilities, and other characteristics that SBA employees will need to perform successfully over the next five years and complete a gap analysis.	Yellow
Establish and implement competency models reflecting the core competencies that will be needed in the next five years.	Yellow
Develop and implement an evaluation process for regular assessments of Agency skills.	Red
Establish and implement an evaluation control mechanism to ensure that all employees have received the appropriate training and have the necessary skills.	Yellow
Develop and implement a comprehensive succession planning process for all staff levels, including regular evaluations of the effectiveness/impact of various components of the process.	Yellow
Make substantial progress in SBA's workforce transformation to meet the needs of SBA's FY 2003-2008 Strategic Plan.	Yellow

Green-Implemented Yellow-Progress being made Red-Not implemented/no substantial progress

Challenge 5. SBA needs better controls over the business loan purchase process.

SBA's guaranty purchase process is the primary tool for assessing lender compliance, on a loan-by-loan basis, and protecting SBA from making erroneous guaranty purchase payments. Until recently, there had been few changes in the guaranty purchase process since 1983, when the majority of Section 7(a) loan applications and all credit-worthiness decisions were reviewed by SBA prior to approval. At the same time, the Preferred Lenders Program (PLP), which permits lenders to make credit decisions with little or no SBA oversight, has grown significantly. In FY 2003, the \$5.8 billion in PLP loans represented 52 percent of the total dollar value of Section 7(a) loans. OIG audits of early defaulted loans showed that lenders did not always originate loans in full compliance with SBA's credit requirements or prudent lending practices, and SBA's guaranty purchase process reviews did not consistently detect these non-compliances, resulting in improper payments. Several OIG audits showed that certain lender errors continued to go undetected because SBA did not obtain and review the lenders' entire loan file during the guaranty purchase review process. The most prevalent lending errors involved repayment ability, equity injection, use of loan proceeds, and collateral. Also, since SBA did not use statistical sampling techniques to select the loans for the quarterly Guaranty Purchase Reviews (GPRs), the results were not reliable for tracking and estimating the level of erroneous payments.

SBA has taken actions to correct many of the deficiencies identified, such as issuing a policy notice strengthening purchase procedures, developing training modules, and training a limited number of individuals responsible for making purchase decisions. However, additional actions are needed to further strengthen the guaranty purchase process and reduce the level of erroneous payments.

Actions Needed	Progress
<i>Top management provides a positive and supportive attitude toward the guaranty purchase process.</i>	
Management establishes an organizational culture where deny and repair actions are used when appropriate.	Yellow
• Adequate resources are devoted to the purchase process.	Yellow
• Adequate training is provided.	Yellow
<i>SBA analyzes risks associated with loan guaranty purchases.</i>	
SBA periodically determines actual or potential risks of erroneous payments.	Yellow
SBA determines level of erroneous payments for the entire loan portfolio.	Yellow
<i>Policies and procedures provide guidance to ensure consistency and accuracy in the purchase process.</i>	
SBA has clear guaranty purchase procedures, which provide for consistent interpretation.	Yellow
Current guidance describes adequate documentation needed to make purchase decisions.	Yellow
Lenders are informed of required documentation to submit with the guaranty purchase request.	Green
Goals are established for reducing erroneous payments.	Green
<i>Information is recorded and communicated to those who need it to ensure proper guaranty purchase decisions.</i>	
SBA has a system for sharing information among field offices regarding the basis and justification for repairs, denials, and withdrawals of loan guaranties.	Green
Field offices track the number of guaranty repairs/denials/withdrawals and the information is readily available centrally.	Green
Information is captured on erroneous payments and is accurate.	Yellow
<i>The guaranty purchase process is properly monitored.</i>	
A quality assurance system provides appropriate feedback to improve the purchase process.	Green
Progress in achieving established goals for reducing erroneous payments is monitored.	Yellow
Results of the GPRs, audits, and other reviews are provided to field offices timely and accurately.	Green
Problems identified by the audits and reviews are resolved timely.	Yellow
Information on all loans with identified guaranty purchase issues are flagged in the Delinquent Loan Collection System (DLCS).	Green

Green-Implemented Yellow-Progress being made Red-Not implemented/no substantial progress

Challenge 6. SBA needs to continue improving lender/participant oversight.

SBA is the preeminent gap lender for small business entrepreneurs in the United States. As a gap lender, SBA necessarily takes more risk than a conventional lender. Since its inception in 1953, SBA has loaned or guaranteed billions of dollars to finance and spur investment in small business concerns. In its business loan program, SBA has shifted over the years from an organization that processed loans to one that relies on program participants to implement its credit programs and services. This reliance increases the risk of financial loss and noncompliance with policies and procedures. An effective participant oversight program is critical for ensuring that participant activities serve Agency objectives and comply with all policies and procedures.

To improve its oversight, the Agency established an Office of Lender Oversight (OLO); completed multiple cycles of PLP reviews and reviews of selected non-PLP lenders; revised the review process for Section 504 Certified Development Companies; conducted safety and soundness examinations of the non-depository Small Business Lending Companies (SBLC); and, implemented a loan monitoring system and risk-based review process to evaluate participants and program risk for its business loans. The effectiveness of the new programs will be assessed this year. Overall, OLO appears to be addressing the elements of its strategic plan and making progress in addressing the actions needed, as described below.

Actions Needed	Progress		
	7(a)	SBIC	504
<i>Top management provides a positive and supportive attitude toward lender oversight.</i>			
The Agency establishes an OLO to implement and manage the oversight of lending partners.	Green	N/A	Green
SBA has a plan for lender oversight.	Yellow	Yellow	Yellow
Training programs exist for implementing the participant oversight process.	Yellow	Yellow	Yellow
Senior management provides adequate resources for the lender oversight program.	Green	Green	Green
<i>SBA analyzes risks associated with achieving objectives.</i>			
A systematic process exists to estimate the level of financial risk on a per loan/investment and participant basis.	Yellow	Yellow	Yellow
A systematic process exists to estimate the level of compliance risk on a per loan/investment and participant basis.	Green	Yellow	Green
Overall program risk is independently reassessed on a recurring basis.	Yellow	Yellow	Yellow
<i>Policies and procedures provide guidance to ensure consistency among organizational components.</i>			
Policy and program guidance for lender reviews exists.	Yellow	Yellow	Yellow
SBA provides guidance and training for new participants and those who demonstrate an unacceptable level of compliance.	Green	Yellow	Green
Uniform policies and procedures have been established for periodic evaluations of participant performance and retention.	Yellow	Yellow	Yellow
<i>Information is recorded and communicated to management and others who need it to fulfill their oversight and stewardship responsibilities.</i>			
SBA has an automated loan monitoring system to capture useful information and effectively monitor risk.	Yellow	Yellow	Yellow
There is effective communication among SBA's internal units.	Green	Green	Green
<i>Monitoring of performance occurs and findings of audits and other reviews are promptly resolved.</i>			
Standardized and periodic reviews of lending activities that address risk are performed.	Yellow	Yellow	Yellow
Systems tracking review results and recommendations are implemented.	Yellow	Yellow	Yellow
<ul style="list-style-type: none"> The status of each lending partner is periodically reevaluated based on the results of the estimates of financial and compliance risk. 	Yellow	Yellow	Yellow

Green-Implemented **Yellow**-Progress being made or improvements implemented but not evaluated as of this date

Red-Not implemented/no substantial progress

Challenge 7. The Section 8(a) Business Development program needs to be modified so that more participating companies receive access to business development and standards for determining economic disadvantage are clear and objective, so that more eligible companies receive 8(a) contracts.

The Section 8(a) Business Development program (8(a) BD program) does not help the largest number of 8(a) companies in need of business development. The primary vehicle to assist 8(a) companies is through contracts with Federal agencies. In FY 2002, 50 percent of the dollar value of 8(a) contracts went to approximately 2 percent of the 8(a) companies, and over half of the companies received no Federal contract benefit. SBA has not placed sufficient emphasis on business development activities to enhance the ability of 8(a) BD participants to compete for contracts and does not adequately ensure that only companies that are owned by economically disadvantaged entrepreneurs and in need of business development remain in the program. In addition, an ever-changing Federal contracting arena, coupled with other socio-economic factors, has created an environment where reengineering of the 8(a) BD program is needed.

SBA needs to:

- Emphasize business development so that the program fulfills its statutory purpose of providing assistance to 8(a) companies so they can compete in the American economy;
- Develop, implement, and enforce criteria defining “business success;”
- Develop new standards for determining economic disadvantage in order to effectively measure diminished capital and credit opportunities – the definition of success included in the law;
- Ensure a more equitable distribution of contracting opportunities to program participants, and
- Provide sufficient training to staff responsible for evaluating companies.

SBA has recently taken the following actions to address the weaknesses in the 8(a) BD Program:

- Started a process that will ultimately have 8(a) BD firms attend workshops to develop Individualized Business Development Plans, including training in and assistance with planning to obtain needed business development;
- Tasked the Associate Administrator for Business Development, via the FY 2004 Performance Scorecard, with working with Federal agencies to get them to distribute their contracts more equitably to 8(a) BD firms; and
- Drafted an 8(a) BD Program Standard Operating Procedure (SOP), which is expected to be further refined in FY 2004 in order to incorporate improvements recommended by OIG.

Actions Needed	Progress
Refocus the 8(a) BD program to emphasize business development.	Yellow
Develop criteria defining “business success.”	Red
Graduate participants once they reach those levels defined as “business success.”	Red
Develop a mechanism that ensures contracting opportunities are more equitably distributed to 8(a) BD program participants.	Yellow
Redefine “economic disadvantage” using objective, quantitative, qualitative, and other criteria that effectively measure capital and credit opportunities.	Red
Provide sufficient financial and analytical training to business opportunity specialists to enable them to evaluate a company’s business profile and competitive potential.	Yellow
Green-Implemented Yellow-Progress being made Red-Not implemented/no substantial progress	

Challenge 8. SBA needs to clarify its rules intended to deter Section 8(a) Business Development participants from passing through procurement activity to non-Section 8(a) Business Development firms.

The 8(a) BD program is intended to be used exclusively for business development purposes in order to help small businesses owned by "socially" and "economically" disadvantaged persons compete on an equal basis in the mainstream of the American economy. While SBA has rules that restrict the amount of a contract that an 8(a) BD firm may "pass through" to a non-Section 8(a) BD firm, these rules are not fully adhered to. OIG audits found that many non-8(a) BD companies received substantial financial benefit through the 8(a) BD program. For example, there were contracts for computer equipment where 80 percent or more of the contract costs were realized by large computer manufacturers. Therefore, the SBA's mission to help small businesses was not being fully realized and the intended purpose of the program was not being met.

SBA has taken action to address this issue by developing a proposed regulation that includes a new standard for value-added resellers. This regulation is in the final approval phase. SBA is also developing a size regulation final rule that will modify Sections 121 and 134 of 13 CFR. Among other issues, this rule should address the definition of manufacturing. These proposed changes, if properly administered, could resolve this management challenge. After the proposed changes are implemented, we will determine whether this issue has been resolved.

Action Needed	Progress
Tighten the definition of "manufacturing" to preclude the practice of making only minor modifications to the products of large and other manufacturers.	Yellow

Green-Implemented Yellow-Progress being made Red-Not implemented/no substantial progress

Challenge 9. Preventing loan agent fraud requires additional measures.

Fraud in the business loan program continues to be a problem, with loan packagers and other for-fee agents frequently playing a role. Although the loans involving loan agent schemes that have been identified thus far represent a small percentage of SBA's total portfolio, they have involved hundreds of millions of dollars. Without corrective measures, the Agency leaves itself vulnerable to additional risk. Fraud could be reduced by systematically identifying loan agents, obtaining necessary background information, and tracking their association with individual SBA loans. The OIG believes that the statutory framework already exists for SBA to take these preventive measures and has requested a confirming legal opinion from the Agency's Office of General Counsel (OGC).

Several years ago, the Agency drafted a modification to an existing compensation agreement (SBA Form 159) in order to gather identification information from loan agents. Unfortunately, this effort was never completed. If the Agency systematically identified loan agents and obtained necessary background information, including criminal background checks, it would have access to information on prior criminal activity that could indicate an individual's propensity to engage in fraudulent activities. In addition, SBA could track loan agents' association with individual loans in order to identify patterns of potentially fraudulent behavior and prevent further harm to the Agency. SBA has made no progress on this management challenge since it was first issued by the OIG in 1998.

Actions Needed	Progress
Within Privacy Act constraints, SBA requires all loan agents to provide the Agency with the information and releases necessary to conduct criminal background checks.	Red
SBA systematically identifies all loan agents and tracks their association with individual loans. This process would include maintaining identifying data on loan agents in an electronic database.	Red

Green-Implemented Yellow-Progress being made Red-Not implemented/no substantial progress

Challenge 10. SBA needs to update its system of directives to provide proper guidance and control over its operations (*New*).

SBA's system of directives – used to instruct its staff and resource partners on the policies and procedures necessary to conduct Agency-related activities – is breaking down. This system is critical because it is the primary means for managing billions of dollars in loan guarantees and other financing, as well as a variety of other programs. Expired Policy and Procedural Notices continue to be used, while drafts of proposed SOPs are sometimes used ahead of time. In other cases, directives are simply obsolete. Unless corrective actions are taken, the resulting uncertainty can waste time and money, delay service delivery to small businesses, create a negative public image, and produce unforeseen consequences.

The overall directives system needs to be significantly overhauled. As recommended by the OIG, SBA formed a working group to develop a plan for revising the directives system's structure. The plan was finalized in November 2003. Moreover, according to Agency officials, SOPs previously not on SBA's Web site are now being scanned in electronically to make them more accessible to employees. In addition, SBA circulated internally a draft policy notice to revise the clearance procedures for future permanent and temporary directives and recently began revising the SOP governing directives management. The new SOP is scheduled to be ready for clearance on September 30, 2004. Finally, the plan calls for SBA to complete, by July 2005, a review of all directives in existence as of October 1, 2003, in order to ensure that any backlog of obsolete or draft directives is cleared out.

The Agency is in the early stages of actually revising its entire directives system but, if SBA maintains its current momentum on the directives issue, it is likely that by December 2004 it will have made measurable progress.

Actions Needed	Progress
Fully implement a revision of SBA's directives system, including revising out-of-date directives and implementing an ongoing periodic review mechanism to ensure they kept up-to-date.	Yellow
Green-Implemented Yellow-Progress being made Red-Not implemented/no substantial progress	

Additional Information

Since this is a newly issued challenge, the following additional information is being included to further illustrate the problems related to this challenge:

- SBA made \$7.6 million in erroneous payments when it honored the guaranties on a sample of defaulted loans reviewed by the OIG. The Agency's review process for purchasing defaulted guaranteed loans did not detect numerous lender errors and non-compliances, largely because of the lack of adequate guidance. Agency procedures have not been significantly revised since 1983, while the number of loans made by lenders authorized to make credit decisions without SBA oversight has increased dramatically. Moreover, a survey of SBA loan officers found that most respondents indicated that the SOP needed to be strengthened.
- Since 1992's major legislative changes, the outstanding leverage held by Small Business Investment Companies (SBICs) had increased from \$805 million to \$4 billion by the end of FY 2001. Yet, existing procedures are outdated and do not effectively minimize program risk. The SOP on oversight and regulation of SBICs has not been revised since 1989, well before the new legislation was enacted. As of December 2003, a revised SOP had not been finalized.

- Although an SOP for the Microloan Program has been in draft over the last 10 years, it has never been issued. Moreover, the guidance on which program staff and participants rely is inadequate.
- In response to lenders and field staff seeking guidance as to whether to comply with a Policy Notice after its expiration date, SBA district office, program, and legal staff offered differing interpretations. The notice instructed SBA employees not to verify the citizenship status of naturalized citizens and had an expiration date of June 1, 2002. Such inconsistency can result in confusion, ineffective service to small businesses, and reduced programmatic accountability.
- SBA regulations did not prohibit a Regional Administrator (RA) from self-authorizing travel. Consequently, the Agency had no independent official determining whether the RA's travel expenses were necessary. Had the new – but as yet unissued – SOP covering travel been in effect at the time, this situation likely would not have occurred. An OIG audit recommended that the Agency issue the new SOP, to include requiring another official to authorize RAs' travel, as well as obtain reimbursement from the RA for unallowable travel payments.
- District offices are supposed to review Section 8(a) firms' business plans annually. A Procedural Notice on the annual review process had an expiration date of May 1, 1996. According to one official, while the notice technically is not in effect, it is still being used until a new SOP is issued. Consequently, the program is using an old directive that may be functionally obsolete.
- A draft SOP for small purchases, grants, and cooperative agreements was prepared in August 1998. Staff members have been directed to follow the draft SOP even though it has not been cleared by SBA offices or formally issued with an effective date. Thus, Agency employees are making official decisions based on a document that technically has no official authority and could be significantly changed.

Appendix 1: Relevant Reports

Most of the SBA OIG reports listed can be found at: www.sba.gov/ig/igreadingroom.html.

Challenge 1:

- GAO, *Status of Achieving Key Outcomes and Addressing Major Management Challenges*, Report # GAO-01-792, June 2001.
- SBA OIG, *Results Act Performance Measurement for the Section 8 (a) Minority Small Business and Capital Ownership Development Program*, Audit Report # 1-11, March 27, 2001.
- SBA OIG, *Results Act Performance Measurement for the Disaster Assistance Program*, Audit Report # 1-06, February 15, 2001.
- SBA OIG, *Results Act Performance Measurement for the Section 7(a) Business Loan Program*, Audit Report # 1-01, December 4, 2000.
- SBA OIG, *Advisory Memorandum: Data Issues Regarding the Processing Centers*, Inspection Report #00-09-01, September 28, 2000.
- SBA OIG, *Coordination and Performance Measurement in SBA's Entrepreneurial Development Programs*, Inspection Report #00-09-02, September 28, 2000.
- SBA OIG, *Results Act Performance Measurement for the Surety Bond Guarantee Program*, Audit Report #0-26, September 25, 2000.
- SBA OIG, *Results Act Performance Measurement for the Small Business Investment Company*, Audit Report #0-25, September 6, 2000.

Challenge 2:

- SBA OIG, *Audit of SBA's FY 2002 Financial Statements Management Letter*, Audit Report #3-24, April 14, 2003
- SBA OIG, *Audit of SBA's FY 2002 Financial Statements*, Audit Report #3-06, January 30, 2003
- GAO, *Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain*, GAO-03-87, January 2003
- SBA OIG, *Audit of SBA's Oversight of the Fiscal Transfer Agent for the Section 7(a) Loan Program*, Audit Report #03-08, January 30, 2003
- SBA OIG, *Audit of SBA's FY 2001 Financial Statements Management Letter*, Audit Report #2-17, April 12, 2002
- SBA OIG, *Audit of SBA's FY 2001 Financial Statements*, Audit Report #2-04, February 27, 2002.
- SBA OIG, *Audit of SBA's FY 2000 Financial Statements Management Letter*, Audit Report #1-15, August 15, 2001
- SBA OIG, *Audit of SBA's FY 2000 Financial Statements*, Audit Report #1-08, February 28, 2001

Challenge 3:

- SBA OIG, *Monitoring of SBA's Implementation of its Disaster Credit Management System*, Audit Report #3-39, September 24, 2003.
- SBA OIG, *Independent Evaluation of SBA's Computer Security Program*, Advisory Memorandum Report #3-37, September 17, 2003.
- SBA OIG, *Audit of SBA's Acquisition, Development and Implementation of its Joint Accounting and Administrative Management System*, Audit Report #3-32, June 30, 2003.
- SBA OIG, *Audit of SBA's Information System Controls*, Audit Report #3-20, March 31, 2003.
- SBA OIG, *SBA's Implementation of its Critical Infrastructure Protection Program, Phase III*, Audit Report #3-03, January 10, 2003.

Challenge 4:

- GAO, *Small Business Administration: Progress Made, but Transformation Could Benefit from Practices Emphasizing Transparency and Communication*, GAO-04-076, October 2003.
- OMB, *The President's Management Agenda and OMB's Human Capital Scorecard*, <http://www.results.gov/agenda/fiveinitatives.html> <http://www.results.gov/agenda/departmentupdates12.html>
- GAO, *Results Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, GAO-03-699, July 2003
- GAO, *Small Business Administration: Workforce Transformation Plan is Evolving*, GAO-02-931T, July 16, 2002.
- SBA OIG, *Modernizing Human Capital Management*, Inspection Report #2-20, May 31, 2002.
- GAO, *Small Business Administration: Current Structure Presents Challenges for Service Delivery*, GAO-02-17, October 2001.
- GAO, *Small Business Administration: Steps Taken to Better Manage its Human Capital, but More Needs to be Done*, GAO/T-GGD/AIMD-00-256, July 20, 2000.
- OIG, *A Framework for Considering the Centralization of SBA Functions*, November 1996.

Challenge 5:

- SBA OIG, *Audit of an Early Defaulted Loan*, Audit Report #3-30, June 19, 2003
- SBA OIG, *Audit of an Early Defaulted Loan*, Audit Report #3-27, May 22, 2003
- SBA OIG, *Audit of the Guaranty Purchase Process*, Audit Report #3-15, March 17, 2003
- SBA OIG, *Audit of an Early Defaulted Loan*, Audit Report #3-07, January 23, 2003
- SBA OIG, *Audit of an Early Defaulted Loan*, Audit Report #2-32, September 30, 2002
- SBA OIG, *Audit of an Early Defaulted Loan*, Audit Report #2-30, September 24, 2002
- SBA OIG, *Audit of an Early Defaulted Loan*, Audit Report #2-23, August 7, 2002
- SBA OIG, *Audit of an Early Defaulted Loan*, Audit Report #2-15, March 29, 2002
- SBA OIG, *Improvements are Needed in Small Business Lending Company Oversight Process*, Audit Report #2-12, March 21, 2002
- SBA OIG, *Audit of an Early Defaulted Loan*, Audit Report #2-03, February 27, 2002
- SBA OIG, *Audit of an Early Defaulted Loan*, Audit Report #2-05, February 27, 2002
- SBA OIG, *Audit of an Early Defaulted Loan*, Audit Report #1-10, March 9, 2001.
- GAO, *Major Management Challenges and Program Risks*, GAO-01-260, January 2001.
- SBA OIG, *Audit of an Early Defaulted Loan*, Audit Report #0-10, April 23, 2000.
- SBA OIG, *Audit of an Early Defaulted Loan*, Audit Report #0-12, March 28, 2000.
- SBA OIG, *Audit of an Early Defaulted Loan*, Audit Report #0-05, February 14, 2000.
- SBA OIG, *Business Loan Guarantee Purchases*, Audit Report #7-5-H-011-026, September 30, 1997.

Challenge 6:

- SBA OIG, *SBIC Oversight*, Audit Report, #3-33, July 1, 2003
- GAO, *Continued Improvements Needed in Lender Oversight*, Report 03-90, December 2002
- SBA OIG, *Impact of Loan Splitting on Borrowers and SBA*, Advisory Memorandum Report #2-31, September 30, 2002.
- SBA OIG, *Improvements needed in SBLC Oversight*, Advisory Memorandum Report, #2-12, March 20, 2002
- SBA OIG, *Preferred Lender Oversight Program*, Audit Report # 1-19, September 27, 2001.
- SBA OIG, *SBA Follow-up on SBLC Examinations*, Audit Report # 1-16, August 17, 2001.

Challenge 7:

- SBA OIG, *Section 8(a) Program Continuing Eligibility Reviews*, Audit Report #4-3-H-006-021, September 30, 1994.

Challenge 8:

- SBA OIG, *NOAA Computer Workstation Contracts*, Audit Report #87H002017, June 18, 1998.

Challenge 9:

- SBA OIG, *Applicant Character Verification in SBA's Business Loan Program*, April 5, 2001.
- SBA OIG, *Summary Audit of Section 7(a) Loan Processing*, Audit Report #0-03, January 11, 2000.
- SBA OIG, *Loan Agents and the Section 7(a) Program*, Inspection Report #98-03-01, March 31, 1998.
- SBA OIG, *Fraud Detection in SBA Programs*, Inspection Report #97-11-01, November 24, 1997.
- SBA OIG, *Operation Cleansweep Memorandum*, August 21, 1996.

Challenge 10:

- SBA OIG, *Audit of SBIC Oversight*, Audit Report #3-33, July 1, 2003.
- SBA OIG, *Problems with SBA's Directives System*, Inspection Advisory Memorandum #3-28, May 22, 2003.
- SBA OIG, *Guaranty Purchase Processing: Directors' Survey Responses and Loan Officers' Survey Responses*, Inspection Report #3-16, March 18, 2003.
- SBA OIG, *Audit of the Guaranty Purchase Process*, Audit Report #3-15, March 17, 2003.
- SBA OIG, *The Microloan Program: Moving Toward Performance Management*, Inspection Report #3-26, May 13, 2003.
- SBA OIG, *Standard Operating Procedure 00-11*, Audit Memorandum, December 17, 2002.
- SBA OIG, *Travel of SBA's Former Regional Administrator*, Audit Report #2-22, August 7, 2002.

APPENDIX 4 - PROGRAM ASSESSMENT RATING TOOL STATUS

OMB has used its Program Assessment Rating Tool (PART) to evaluate several SBA programs. These programs, their total weighted scores and their effectiveness ratings are:

- Small Business Development Centers (SBDCs) – 73% -- Adequate
- 504 Certified Development Company Guaranteed Program – 70% -- Adequate
- Business Information Centers (BICs) – 42% -- Results Not Demonstrated
- Service Corps of Retired Executives (SCORE) – 71% -- Moderately Effective
- Office of Disaster Assistance – 82% -- Moderately Effective
- Small Business Investment Company (SBIC) – 64% -- Moderately Effective

The tables below show how each of these programs was scored on each of the four sections of the PART, as well as their total score. Following each table is the OMB statement for any PART question where the program was not awarded full points for sufficient compliance. Where partial points were given for compliance to a Large Extent or to a Small Extent, this degree of compliance is also noted. For those PART questions where the OMB statement is not shown, the SBA program received the full points possible for effective compliance, or the question was not applicable to the program.

PART Questions:

I. Program Purpose & Design

- 1.1. Is the program purpose clear?*
- 1.2. Does the program address a specific and existing problem, interest or need?*
- 1.3. Is the program designed so that it is not redundant or duplicative of any other Federal, state, local or private effort?*
- 1.4. Is the program design free of major flaws that would limit the program's effectiveness or efficiency?*
- 1.5. Is the program effectively targeted, so that resources will reach intended beneficiaries and/or otherwise address the program's purpose directly?*

II. Strategic Planning

- 2.1. Does the program have a limited number of specific long-term performance measures that focus on outcomes and meaningfully reflect the purpose of the program?*
- 2.2. Does the program have ambitious targets and timeframes for its long-term measures?*
- 2.3. Does the program have a limited number of specific annual performance measures that can demonstrate progress toward achieving the program's long-term goals?*
- 2.4. Does the program have baselines and ambitious targets for its annual measures?*
- 2.5. Do all partners (including grantees, sub-grantees, contractors, cost-sharing partners, and other government partners) commit to and work toward the annual and/or long-term goals of the program?*
- 2.6. Are independent evaluations of sufficient scope and quality conducted on a regular basis or as needed to support program improvements and evaluate effectiveness and relevance to the problem, interest, or need?*
- 2.7. Are Budget requests explicitly tied to accomplishment of the annual and long-term performance goals, and are the resource needs presented in a complete and transparent manner in the program's budget?*
- 2.8. Has the program taken meaningful steps to correct its strategic planning deficiencies?*

III. Program Management

- 3.1. Does the agency regularly collect timely and credible performance information, including information from key program partners, and use it to manage the program and improve performance?
- 3.2. Are Federal managers and program partners (including grantees, sub-grantees, contractors, cost-sharing partners, and other government partners) held accountable for cost, schedule and performance results?
- 3.3. Are funds (Federal and partners') obligated in a timely manner and spent for the intended purpose?
- 3.4. Does the program have procedures (e.g. competitive sourcing/cost comparisons, IT improvements, appropriate incentives) to measure and achieve efficiencies and cost effectiveness in program execution?
- 3.5. Does the program collaborate and coordinate effectively with related programs?
- 3.6. Does the program use strong financial management practices?
- 3.7. Has the program taken meaningful steps to address its management deficiencies?
- 3.CR1. Is the program managed on an ongoing basis to assure credit quality remains sound, collections and disbursements are timely, and reporting requirements are fulfilled?
- 3.CR2. Do the program's credit models adequately provide reliable, consistent, accurate and transparent estimates of costs and the risk to the Government?

IV. Program Results/Accountability

- 4.1. Has the program demonstrated adequate progress in achieving its long-term performance goals?
- 4.2. Does the program (including program partners) achieve its annual performance goals?
- 4.3. Does the program demonstrate improved efficiencies or cost effectiveness in achieving program goals each year?
- 4.4. Does the performance of this program compare favorably to other programs, including government, private, etc., with similar purpose and goals?
- 4.5. Do independent evaluations of sufficient scope and quality indicate that the program is effective and achieving results?

Small Business Development Centers (SBDCs)			
Section	OMB Weighting	Score	Weighted Score
Program Purpose & Design	20%	80%	16%
Strategic Planning	10%	100%	10%
Program Management	20%	100%	20%
Program Results/Accountability	50%	53%	27%
Total Program Score	100%		73%

Effective Rating: Moderately Effective

Issues Raised: The PART assessment of SBDCs identified the following issues as described by OMB:

1.3. NO. The design of the SBDC program is congressionally mandated by statute. Therefore, SBA has little control over program design. Some small businesses served by the SBDC program could seek counseling & training from other SBA or non-SBA sources. However, with over 1000 centers, no other program covers such a wide geographical area. SBDCs also serve functions that other similar programs do not, such as administering the Coverdell Drug-Free Workplace Program. The target small business population for the SBDC program is those not served by the private sector. The average SBDC client receives 5.5 hours of counseling. The SBDC program partners with other programs and makes referrals to those programs, as appropriate.

4.1. LARGE EXTENT. The agency has articulated its new long-term goals for this program in its Strategic Plan. Both annual performance goals and performance measures have been developed and are contained in both the Strategic Plan and the research plan for the economic impact study. Goals include creating or retaining jobs, increase counseling of established small businesses, and increased on-line counseling.

4.2. LARGE EXTENT. The SBDC program met or exceeded its annual performance goals four out of the last five years. The SBDCs are required to input their counseling and training statistics in the MIS System which

collects performance on numerous outputs and outcomes. They must also state their achievements toward their milestones (goals) in their annual narrative reports. In addition, the SBDCs must conduct client satisfaction surveys.

4.3. LARGE EXTENT. The SBDCs have demonstrated improving efficiencies in achieving program counseling and training goals each year. Funding is fairly level, yet the SBDCs have increased counseling and training hours provided to small businesses. From 1999 to 2002, the unit cost of providing counseling to clients decreased from \$170 to \$154.

4.4. SMALL EXTENT. The SBDC Program provides long-term, in-depth counseling. The program provides an average of 5.4 hours of counseling to each client. Nonetheless, the program is costly as measured per client assisted as compared to other SBA programs. The Chrisman Economic Impact Study shows that SBDC long-term counseling generated approximately \$2.09 in tax revenues for every \$1 spent on the entire SBDC program. In FY2001, SBDCs reported over 131,000 jobs created or retained, an increase in sales of \$77 for every federal dollar spent, \$287M generated in state taxes, and \$294M generated in federal taxes. The program compares favorably to the NIST MEP Program. MEP has assisted 149,000 small manufacturers since 1989; SBDCs assist 600,000 small businesses every year. MEP's 2002 budget is approximately \$106M; the SBDCs 2002 budget is approximately \$88M.

4.5. SMALL EXTENT. The latest Chrisman Economic Impact Study shows that the SBDC program is effective and achieving results. It shows that long-term counseling activities generated approximately \$2.09 in tax revenues for every \$1 spent on the entire program (counseling less than 5 hours and training). It also shows that in FY2001 small businesses receiving counseling had an additional \$6.56 billion in sales and created/retained approximately 131,000 jobs. A recent internal SBA independent study indicated that the SBDC program has numerous strengths. The long-term goals established this year also help determine whether the program is achieving meaningful results. In addition, SBA is developing a research plan which will lay the groundwork for an annual impact study to provide baseline economic data, annual output and outcome data to analyze performance. A statement of work has been developed to contract for an annual independent evaluation of the program.

Summary of Findings: OMB stated that the programs purpose is clear, that each \$1 spent on counseling resulted in \$2.78 in tax revenue, and that there are no evaluations from which to measure the agency's management of the program. It also found that funds are allocated to SBDCs based on formulas rather than performance and that the hourly cost of consulting services varied significantly among SBDCs without any evidence that the quality of services or outcomes differed.

Response to Findings: Outcome-oriented annual long-term goals and measures have been developed to assess program performance, and a standardized evaluation strategy has been developed to measure the impact of the SBDC program relative to other SBA technical assistance programs.

504 Certified Development Company Guaranteed Program			
Section	OMB Weighting	Score	Weighted Score
Program Purpose & Design	20%	60%	12%
Strategic Planning	10%	50%	5%
Program Management	20%	100%	20%
Program Results/Accountability	50%	67%	33%
Total Program Score	100%		70%

Effectiveness Rating: Adequate

Issues Raised: The PART assessment of the 504 Program identified the following issues as described by OMB:

1.3. NO. There is potential overlap between SBA's 504 and the 7(a) programs. While both may provide long-term loans for fixed asset purchases, the programs have different financing structures. The 504 program provides fixed rate lending with the government in a second lien position. The 7(a) program, which also can finance working capital requirements, provides financing at variable rates with lenders and the government sharing risk as first lien holders.

1.4. NO. While SBA recently addressed effectiveness issues (barriers to competition among certified development companies participating in the program), efficiency problems remain (risk sharing). Under the program, SBA holds a second lien on borrower assets. As a result, the private lender (first lienholder) may not have adequate incentives to manage loans and mitigate non-performance; upon default, SBA often purchases the first lienholder's position in order to ensure effective liquidation efforts. This increases burdens on the agency.

2.2. NO. As stated in the agency's 5 year Strategic Plan: from FY 2003 - 2008, SBA's 504 program will assist in creating and retaining 580,000 jobs. Through the 504 program, SBA anticipates aiding 6,100 start-up firms in the next five years. By FY 2007, the 504 program will provide approximately 5,000 loans to underutilized markets. These goals reflect decreases from prior years.

2.4. NO. While the program has baselines for its annual measures, targets are not ambitious, especially given Agency assertions that the new 504 rule will greatly expand competition and subsequently lending.

2.5. NO. Agency policy requires each district office to meet a specific annual lending goal. The Agency monitors district performance on a weekly basis with Agency Administrator. The program is goaled by GPRA toward increasing the number of loans made and to specific categories (i.e., loans to start-ups). Communication of goals to CDC's are done through District Offices, and through ongoing discussions with trade group and annual conferences. Nonetheless, individual CDCs are not required commit to and work towards SBA's annual goals.

2.6. NO. The agency has conducted a number of studies covering a variety of aspects of the 504 program. The independent studies have validated the 504 program's focus, and IG's reports that have led to program enhancements via regulation and procedural changes. Nonetheless, SBA needs to evaluate the net economic impact of the program and ensure that loan recipients would not have been able to received loans from the private market at reasonable rates.

4.1. LARGE EXTENT. The 504 program has a statutory goal of creating or retaining at least 1 job for each \$35,000 in loans. The agency has consistently met this requirement. In addition, the agency has developed its own goals in terms of the overall number of jobs created annually. As a result of a weakened economic climate and the agency's inability to meet original FY 2003 targets, SBA has decreased future targets.

4.2. LARGE EXTENT. On the whole the 504 program meets most annual lending goals. For 2003, the program is behind schedule to meet lending goals for veteran-owned businesses. The Agency is working with SBA veterans outreach and district offices to achieve this goal. Currently 70% of field offices are within 10% of achieving their goals with the greatest percentage of lending volume still to come in FY03.

4.4. LARGE EXTENT. The overall performance of the 504 program has been favorable. This public/private partnership facilitates community development and job retention/creation. As a zero subsidy program, taxpayers only bear administrative costs for providing approximately \$2.5 billion in annual lending.

4.5. SMALL EXTENT. The agency has conducted a number of studies covering a variety of aspects of the 504 program. The independent studies have validated the 504 program's focus, and IG's reports that have led to program enhancements via regulation and procedural changes. SBA is drafting a proposal to conduct an updated independent evaluation of the 504 program, and has identified a potential funding source for the study. The study will evaluate the economic impact of the program and determine whether 504 loan supplement private lending.

Summary of Findings: OMB stated that the program addresses its statutory purpose of providing loans to small businesses, and that while the 504 loans differ in structure from SBA's 7(a) loans, the two programs overlap in that they both provide long-term financing for the same potential borrowers.

Inadequate competition among intermediaries resulted in limited loan availability in some regions, and further evaluations are necessary to ensure that the program complements rather than competes with private-sector loans. Also, due to a complicated financing structure where SBA holds a second lien on assets, the lender's and intermediary's incentives to effectively manage loans may be adversely affected.

Response to Findings: SBA has issued regulations that remove barriers to competition among Certified Development Company program intermediaries, and is developing an evaluation strategy to ensure that loans supplement rather than supplant credit available in the private market. SBA is changing the servicing requirements so that intermediaries will be responsible for loan liquidations in the event of default.

Business Information Centers (BICs)			
Section	OMB Weighting	Score	Weighted Score
Program Purpose & Design	20%	20%	4%
Strategic Planning	10%	50%	5%
Program Management	20%	100%	20%
Program Results/Accountability	50%	27%	13%
Total Program Score	100%		42%

Effectiveness Rating: Results Not Demonstrated

Issues Raised: The PART assessment of the BIC program identified the following issues as described by OMB:

1.2. NO. Less than 20% of nascent entrepreneurs actually start businesses. Of those who start businesses, 80 % discontinue operations within five years due to lack of management knowledge according to Dun & Bradstreet and many academic researchers. BICs provide entrepreneurs with access to technology and research materials that can assist clients in making sound management decisions. Nonetheless, these services are available absent the existence of BICs.

1.3. NO. While no other Federally funded program predominantly targets the nascent entrepreneur and the early start-up clients in a single one location, access to technology is available in many other locations, including public libraries, chambers of commerce, etc.

1.4. NO. SBA annually leverages its \$475,000 with \$2 million in private sector support. Nonetheless, SBA spent approximately \$14 million in administrative funds in FY 2002 to manage and support this program.

1.5. NO. Needs analysis of the target market are not consistently used in allocating BIC funds.

2.1. NO. While the program has several output goals (customer satisfaction, number of clients counseled and trained, and unit cost), it lacks meaningful, long-term outcome goals and measures.

2.2. NO. In the absence of long-term, outcome goals, ambitious targets and timeframes for measures are unavailable.

2.5. NO. Until FY 2003, there was no formal system assure that partners committed to and worked towards the annual and long-term goals of the program. SBA now requires all BIC sites to sign an annual standards agreement to provide services and serve clients which incorporates the annual and long-term goals of SBA.

2.6. NO. To date, there have been no independent evaluationS of the impact of the BIC program. SBA has developed a draft statement of work for an independent evaluation of technical assistance programs.

4.1. NO. While BICs have achieved an 90 percent customer satisfaction score from clients, the agency lacks long-term, outcome oriented goals from which to measure the economic impact of the program.

4.3. SMALL EXTENT. While SBA has been transitioning BICs to community-based sites with no direct SBA personnel involvement (to reduce costs), program administrative costs were approximately \$14 million in FY 2002 to manage and support only \$475,000 in grants.

4.4. NO. The program is duplicative of other federal and non-profit initiatives. It lacks measurable economic impact data and is expensive to management and support.

4.5. NO. There have been no independent evaluations to measure the economic impact of the program. Nonetheless, SBA is developing an overall research plan capable of measuring the appropriate outcomes for each ED program.

Summary of Findings: OMB stated that the program lacks a clear purpose or outcome goals to measure performance, and that there are no data to show that the program has resulted in long-term benefits to small business. There are no evaluations to assess the agency's management of the program, and based on SBA's cost allocation data, \$14 million was spent to manage and support \$475,000 in grants. OMB found that the program is duplicative of services provided by Federal, state, and non-profit entities, including access to technology and research resources.

Response to Findings: The Administration will terminate the BIC program and redirect resources to more efficient technical assistance functions.

Service Corps of Retired Executives (SCORE)			
Section	OMB Weighting	Score	Weighted Score
Program Purpose & Design	20%	80%	16%
Strategic Planning	10%	88%	9%
Program Management	20%	100%	20%
Program Results/Accountability	50%	53%	27%
Total Program Score	100%		71%

Effectiveness Rating: Moderately Effective

Issues Raised: The PART assessment of SCORE identified the following issues as described by OMB:

1.3. NO. The program matches retired business executive volunteers with entrepreneurs for mentoring. While on a more limited scale, these services are available through local business networks.

4.1. NO. SBA has directed resources in an effort to identify long-term goals for the program and to evaluate achievement against those goals. After an extensive literature review and consultation with academics and other researchers, it was determined that little if any economic impact analysis has been conducted on an economic development program using a sufficiently rigorous model (a random control model, for instance). For that reason, SBA will launch a long-term research effort to develop an effective economic impact testing model and appropriate measures, and implement those measures into SBA entrepreneurial programs' strategic planning and goals. Due to the econometric and data challenges, as well as budget constraint, the initial study will likely be done regionally, the test results evaluated, refined with OMB help and oversight, and expanded in ensuing years.

4.3. LARGE EXTENT. SCORE is moving chapters out of government-provided space into low-or no-cost community locations. Expansion of online counseling, now comprising 26% of all counseling, was achieved with no additional budget and has contributed substantially to numbers of clients counseled. On-line counseling

is available 24 hours a day, 7 days a week, dramatically increasing the convenience and availability of SCORE counseling. Increased recruitment of volunteers has also increased clients counseled with no additional cost. As a volunteer program, it is very cost efficient in achieving annual performance goals with a value of \$65 million in volunteer contribution. Furthermore, SCORE is aggressively pushing for new, low-cost or cost-free ways to reach the entrepreneurial market. All leveraged by a \$5 million grant. Nonetheless, the agency's internal administrative cost for the program increased significantly in 2001 and 2002 over prior years.

4.4. LARGE EXTENT. With the implementation of new economic impact studies, new long-term goals will be developed to focus on those outcomes. However, SCORE is SBA's most dynamic and efficient program under current measures. In terms of cost per client, SCORE, at app. \$30/client, is much more efficient than any other SBA technical assistance program. Their client counseling numbers have shown significant growth in recent years, and the program has taken a dynamic approach to marketing to entrepreneurs, providing a good counseling product, and cutting costs.

4.5. SMALL EXTENT. The SCORE program underwent significant independent evaluations this year. In addition to ongoing QSRs, the SBA's IG finalized an audit of the program. That audit identified no performance deficiencies in the program and concluded that "the national SCORE had an internal control structure in place to ensure appropriate use of federal funds." Also, SCORE contracted with an independent firm (Community Poll) which conducted a customer satisfaction survey. Results showed that 83% of clients rated service as "good to excellent" with more than half of that group rating it as "excellent." A statement of work has been developed for a contractor, pending funding, to perform an independent evaluation. In addition, SBA has developed a research plan which will provide economic impact data which will assist in analyzing performance determinations.

Summary of Findings: OMB stated that the program's purpose was clear, and that the program has successfully brought together volunteers with entrepreneurs for mentoring. Due to the use of volunteers, the cost per client under the SCORE was low relative to other programs. While client satisfaction is high, there are no other data to show that the program has resulted in long-term benefits to recipients.

Response to Findings: SBA has developed long-term, outcome-oriented performance goals, and a standardized evaluation strategy to measure the impact of SCORE relative to other SBA technical assistance programs.

Office of Disaster Assistance			
Section	OMB Weighting	Score	Weighted Score
Program Purpose & Design	20%	100%	20%
Strategic Planning	10%	100%	10%
Program Management	20%	78%	16%
Program Results/Accountability	50%	73%	37%
Total Program Score	100%		82%

Effectiveness Rating: Moderately Effective

Issues Raised: The PART assessment of ODA identified the following issues as described by OMB:

3.6. NO. The program has financial management and review procedures that prevent duplicate and minimize potential erroneous payments. The Agency maintains an extensive data base and reporting system to track and measure daily and monthly loan servicing and collection performance at five loan servicing centers where over 95% of the Agency's portfolio resides. Each servicing center has many additional performance reports available from local portfolio data bases with which to monitor and track new loans received, and address poor performing loans or identify borrowers in need of servicing assistance. Nonetheless, the agency was cited for deficiencies in estimating the subsidy cost of the program under the FY 2002 financial statement audit.

3.CR2. NO. During the FY 2002 financial statement audit, auditors concluded that the agency financing account balances may not be accurate in reflecting the cost of the program. Subsequent research indicated that the budgetary model may have been the cause. As such, SBA is developing a new model to calculate disaster loan subsidy costs.

4.1. NO. ODA has only recently established long term performance goals as a part of revisions to its Strategic Plan and has not yet had the opportunity to measure the new goals. Next year (04) will be the first opportunity SBA will have to measure the success of its goals.

4.5. LARGE EXTENT. Recent evaluations by GAO of SBA's results in responding to 911 victims indicate that the SBA program was highly effective in achieving results as regards its program delivery. GAO commented that the Disaster Program's goals and measures did not capture the notable progress the program has made in improving its loan processing--progress that ultimately affects disaster loan applicants and borrowers. SBA's Office of Disaster Assistance is revising its measures and goals to focus more on outcomes.

Summary of Findings: OMB stated that the program complements, rather than duplicates, other disaster assistance programs. The program has lacked credit models that adequately reflect the government's costs, and its loan making costs, due to fraud prevention, are high.

Response to Findings: SBA has developed a new credit model that accurately determines loan costs based on performance, and used this model for the FY 2005 Budget estimate. The improved model confirms that the Disaster Loan program has much higher costs, in the form of subsidies to borrowers, than previously estimated. SBA is proposing reforms that will provide borrowers with more reasonable interest subsidies while controlling Federal program costs, and it is implementing technological solutions to mitigate growth in the administrative cost of making loans.

Small Business Investment Company (SBIC)			
Section	OMB Weighting	Score	Weighted Score
Program Purpose & Design	20%	60%	12%
Strategic Planning	10%	88%	9%
Program Management	20%	67%	13%
Program Results/Accountability	50%	60%	30%
Total Program Score	100%		64%

Effectiveness Rating: Moderately Effective

Issues Raised: The PART assessment of the SBIC program identified the following issues as described by OMB:

1.3. NO. SBA fostered venture capital when this market was virtually non-existent (late 1950s- early 1960s) and angel investors were the primary sources of equity capital for start-up businesses. However, the venture capital market has matured substantially over the last 15 years (although it is currently in an economic slump). While SBA has a market niche providing patient capital for small business investments through public-private partnerships, the private market provides equity capital to all ranges of business including small. Further, debt financing is available in the private sector as well as other SBA loan guarantee programs.

1.4. NO. SBIC fund management and investment decisions are competitively sourced to qualified private venture capital fund managers. The government acts as a preferred limited partner and monitors SBICs for signs of poor financial performance or fraud. The program operates on a zero subsidy rate and, while not intended to make money for the government, is supposed to "break even" over time. Private industry pays for part of the costs of the program through fees and profit-sharing. While the SBIC program is well-managed within its current legal parameters, there are at least two design flaws in the program's structure that limits efficiency and effectiveness: 1)

SBA's "profits" are not proportional to the investment that the agency makes in SBICs and 2) insufficient incentives exist to encourage SBICs to return capital (pay back principal debt) to SBA as quickly as possible.

2.6. NO. Two issue-specific reviews conducted by the Inspector General (FY 2000 and 2002). The last GAO study was published September 2000. No funds currently budgeted for a comprehensive third-party review or audit of the program.

3.1. NO. Every SBIC must report electronically a quarterly report on their financial status (audited annually). All financings must be reported within 30 days of occurrence. Summary information is reported weekly to program managers. However, it is not clear that the Investment Division and OCFO regularly share information to maintain the most accurate records and use them in a way to inform program performance. Both offices are working to improve this deficiency. In addition, SBA is transforming its SBIC program employees into portfolio managers to measure, monitor, and mitigate risk more effectively.

3.4. NO. Currently, SBA has no FAIR Act plan articulating the agency's plan to streamline functions and increase efficiencies in all program areas, including SBIC. Exam function in SBIC program will undergo FAIR Act review in the fourth quarter of FY03 and will comply with Agency direction in this matter.

3.CR2. NO. The SBIC Participating Securities program is not designed as a typical credit program *per se* and thus risk cannot be evaluated based on typical loan monitoring techniques alone. However, the current credit model does not accurately capture all of the business "rules" or transactions, there are differences in financial data between the SBA's OCFO and Investment Division (currently being addressed), technical assumptions need to be revised, and the current methodology does not capture fluctuations in the economy early enough to more accurately assess program performance.

4.1. SMALL EXTENT. Program did not meet all performance goals in FY 02, but this is due to the program's market-driven focus: A lower job creation number reflects the fact that, while SBICs are making a proportionately higher number of actual financings, the amount of dollars involved has declined along with the rest of the venture capital market.

4.2. LARGE EXTENT. The program is on target to achieve all of this year's goals, except for the number of licenses approved.

4.5. NO. Based on input from many sources -- Congress, the Executive branch, private industry, past Advisory Council reports, GAO, IG, and others -- the Investment Division has acted on a host of recommendations to improve program effectiveness and achieve measurable results. However, SBA has no recent independent evaluations demonstrating that the SBIC program supplants rather than supplements private venture capital investments.

Summary of Findings: OMB stated that while the SBIC program has produced some successful small businesses, the SBIC Participating Securities program has structural flaws that affect its solvency. The Federal Government's financial returns are not proportional to its investment. SBA invests up to two-thirds of total funds, but receives only about 10% of SBICs' profits. Given the rapidly mounting losses in the SBIC portfolio, the cost to the Federal Government is now projected to be about \$2 billion. Also, OMB stated that SBICs do not have adequate incentives to pay back funds expediently. Under current statute, SBICs make "profit" payments to SBA but these are generally insufficient to fully repay the original principal investment promptly, extending SBA's risk exposure. In addition, OMB stated that the subsidy model underestimates the cost of the program. The technical assumptions (e.g., defaults, recoveries and profits) have been more optimistic than actual performance. The estimation methodology should also be reexamined to capture more accurately fluctuations in the economy. The Debenture program also has had large losses, despite forecasts of zero taxpayer subsidy. Questions were also raised about the program's purpose and design. OMB stated that SBA fostered the development of the venture capital market when it was virtually non-existent in the late 1950s and 1960s, but that today private venture capital financing is available at all stages of business development.

Response to Findings: The Administration will submit a legislative proposal with the FY 2005 Budget to reduce the government's risk and increase its share of profit earnings, while continuing to operate the program without Federal appropriations.

APPENDIX 5 - U.S. SMALL BUSINESS ADMINISTRATION INTERNET LINKS

SBA SITES YOU CAN USE

The SBA home page is www.sba.gov. All of the program agencies may be accessed from this site; however, several of the more frequently visited sites are listed below:

SBA INFORMATION

Who We Are and What We Do: <http://www.sba.gov/aboutsba/>.html

Ask SBA!: <http://www.sba.gov/asksba/>

Find Your Local Office: <http://www.sba.gov/regions/states.html>

What's New?: <http://www.sba.gov/news/indexwhatsnew.html>

SBA En Español: <http://www.sba.gov/espanol/>

Ombudsman: <http://www.sba.gov/ombudsman/>

Online Library: <http://www.sba.gov/library/>

Small Business Classroom: <http://www.sba.gov/classroom/>

FOR START-UP BUSINESSES

What is a Small Business?: <http://www.sba.gov/starting/indexwhatis.html>

Starting Your Business: <http://www.sba.gov/starting/>

Frequently Asked Questions: http://www.sba.gov/starting_business/index.html

Your First Steps: <http://www.sba.gov/starting/indexsteps.html>

Start-up Kit: <http://www.sba.gov/starting/indexstartup.html>

Training: <http://www.sba.gov/starting/indextraining.html>

Business Plans: <http://www.sba.gov/starting/indexbusplans.html>

Outside Resources and Business Hotlinks: <http://www.sba.gov/hotlist/>

FOR ESTABLISHED BUSINESSES

Financing Your Business: <http://www.sba.gov/financing/>

Loan Programs: <http://www.sba.gov/financing/indexloans.html>

Loan Forms: <http://www.sba.gov/library/forms.html>

PRIME: <http://www.sba.gov/financing/frprime.html>

Surety Bond: <http://www.sba.gov/financing/surety.html>

Business Opportunities: <http://www.sba.gov/expanding/>

CONTRACTING WITH THE GOVERNMENT

Government Contracting: <http://www.sba.gov/GC/>
PRO-Net: <http://pro-net.sba.gov/>

DISASTER ASSISTANCE

Disaster Assistance Information: <http://www.sba.gov/disaster/general.html>
Disaster Area Office Locations: <http://www.sba.gov/disaster/dao.html>
Loan Information: <http://www.sba.gov/disaster/loans.html>
FEMA Information: <http://www.sba.gov/disaster/fema.html>

SBA Planning, Budgeting, & Reporting

FY2003-FY2008 Strategic Plan <http://www.sba.gov/strategic/strategicplan2003pdf>
FY2003 Budget Request and Performance Plan
<http://www.sba.gov/aboutsba/2003/fy2003budget.pdf>
FY2004 Budget Request and Performance Plan
<http://www.sba.gov/aboutsba/2004/fy2004budget.pdf>
FY2002 Performance and Accountability Report
<http://www.sba.gov/aboutsba/annualreport/2002/>
FY2003 Performance and Accountability Report
<http://www.sba.gov/PAR.pdf>

APPENDIX 6 - GLOSSARY OF ACRONYMS

504	504 Loan Program Provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings and long-life capital equipment. For more information, please go to http://www.sba.gov/financing/sbaloan/cdc504.html .
7(a)	Basic 7(a) Loan Guaranty Program The SBA's primary loan program. Provides general loan financing for a wide variety of purposes. SBA guarantees small business loans for virtually every business purpose. For more information, please go to http://www.sba.gov/financing/sbaloan/7a.html .
8(a)	8(a) Business Development Program This program assists firms owned and controlled by socially and economically disadvantaged individuals to enter and succeed in the economic mainstream. For more information, please go to http://www.sba.gov/businessop/programs/8a.html .
ABB	Activity Based Budgeting A costing methodology that focuses on activity information to determine a resources budget.
ABC	Activity Based Costing A costing methodology that uses activity information to measure the cost and performance of activities, resources and cost objects. Resources are assigned to activities; then activities are assigned to cost objects based on their use.
AICPA	American Institute of Certified Public Accountants The National, professional organization for all Certified Public Accountants. Its mission is to provide members with the resources, information and leadership that enable them to provide valuable services in the highest professional manner to benefit the public as well as employers and clients. The AICPA sets non-Federal accounting standards and influences the Federal Accounting Standard Board's establishment of Federal accounting standards.
BATF	Business Assistance Trust Fund A trust fund in the U.S. Treasury maintained to receive and account for donations made by private entities for activities to assist small business. SBA authorizes BATF disbursements in accordance with the donor's intention to assist small business.

BD	Business Development Uses the SBA's statutory authority to provide business development and Federal contract support to small disadvantaged firms. Manages the business development 8(a) and 7(j) programs. For more information, please go to http://www.sba.gov/BI/ .
BICs	Business Information Centers Provides hardware, software and telecommunications at multiple locations to help small businesses start and grow. BIC counseling and training are provided by the Service Corps of Retired Executives (SCORE) and other SBA partners and community organizations.
BLIF	Business Loan and Investment Fund The Treasury fund used to maintain the accounting records of loans approved prior to 1992. It includes activity on direct loans, loan guarantees and defaulted guarantees purchased by SBA. Loans approved subsequent to FY 1991 are maintained in another set of accounts under Federal Credit Reform guidelines.
CA	Capital Access The Office of Capital Access (OCA) is responsible for small business program loans, lender oversight, the investment company program, the surety bond program and international trade.
CDC	Section 504 Certified Development Company Debenture Program A participating CDC issues debentures to private investors to finance transactions with small business borrowers. SBA's guaranty covers 100 percent of the debenture financing, and the Agency honors its guarantee to the investor through a single Central Servicing Agent (CSA). For more information, please go to http://www.sba.gov/financing/sbaloan/cdc504.html .
CEAR	Certificate of Excellence in Accountability Reporting Receiving the CEAR award represents a significant accomplishment for a Federal agency and its management. Congress, the U.S. Office of Management and Budget (OMB), the U.S. Department of the Treasury and the General Accounting Office recognize the CEAR Award as evidence of a complete presentation of an agency's programmatic and financial affairs.
CFO	Chief Financial Officer The Chief Financial Officer is responsible for the financial leadership of the Agency. This includes responsibility for all Agency disbursements, management and coordination of Agency planning, budgeting, analysis and accountability processes. For more information, please go to http://www.sba.gov/cfo/ .
CFR	Code of Federal Regulations The codification of the general and permanent rules published in the Federal Register by the executive departments and agencies of the Federal Government.
CIO	Chief Information Officer The Chief Information Officer is responsible for the management of information technology for the Agency, including the design, implementation and continuing successful operation(s) of information programs and initiatives.
COSO	Committee of Sponsoring Organizations of the Treasury Commission A framework for internal controls.

COTS	Commercial Off-The-Shelf Software readily available for purchase rather than specially developed when needed.
CSRS	Civil Service Retirement System The CSRS originated in 1920 and has provided retirement, disability and survivor benefits for most civilian employees in the Federal government.
DA	Disaster Assistance The Office of Disaster Assistance promotes economic recovery in disaster ravaged areas. In the wake of disasters, SBA's loans are the <i>primary form of Federal assistance</i> for non-farm, private sector disaster losses for individuals and businesses. For more information, please go to http://www.sba.gov/disaster_recov/loaninfo/property.html .
DLF	Disaster Loan Fund Assists eligible small businesses impacted by the disasters.
DSO	Designated Security Officer The individual designated by the head of an office to be responsible for the implementation and management of the Information Technology Security Program within his/her organization.
ED	Entrepreneurial Development The Office of Entrepreneurial Development (ED) provides management and business development assistance through a network of over 1,500 resource partner locations. For more information, please go to http://www.sba.gov/ed/ .
EFT	Electronic Funds Transfer Electronic payments and/or collections.
ERP	Enterprise Resource Plan The automation of a unit which includes interlinking of various departments.
EWCP	Export Working Capital Program An SBA program that allows the SBA to provide lenders with a repayment guaranty of up to \$1 million or 90 percent on short-term working capital loans that participating lenders make to small business exporters. For more information, please go to http://www.sba.gov/financing/loanprog/ewcp.html .
FACA	Federal Advisory Committee Act An act to authorize the establishment of a system governing the creation and operation of advisory committees in the executive branch of the Federal Government.
FACTS	Federal Agencies Centralized Trail Balance System Computer program that enables Federal program agencies to electronically report budget execution information to the U.S. Department of the Treasury.
FASAB	Federal Accounting Standards Advisory Board Promulgates accounting principles for Federal Government reporting entities.

FASB	Financial Accounting Standards Board Establishes and improves standards of financial accounting and reporting for the guidance and education of the public, including issuers, auditors, and users of financial information.
FBI	Federal Bureau of Investigation The investigative arm of the U.S. Department of Justice.
FCRA	Federal Credit Reform Act The Federal Credit Reform Act of 1990 was enacted to provide a more realistic picture of the cost of U.S. Government direct loans and loan guarantees. The credit subsidy cost of direct loans and loan guarantees is the net present value of the estimated long-term cost to the Government for these credit activities, exclusive of administrative expenses.
FECA	Federal Employees' Compensation Act Provides compensation benefits to Federal civilian employees for work-related injuries or illnesses, and to their surviving dependents if a work-related injury or illness results in the employee's death.
FEDSIM	Federal Systems Integration and Management Center A program of the GSA's Office of Information Technology Integration providing client services on a fee-for-service basis. It is the Federal Government's voluntary source of technical IRM expertise.
FEGLI	Federal Employees Group Life Insurance This is the largest group life insurance program in the world, covering over 4 million Federal employees and retirees, as well as many of their family members.
FEHB	Federal Employees Health Benefit Provides health insurance benefits to over 8 million Federal enrollees and dependents.
FEMA	Federal Emergency Management Agency FEMA is a former independent agency became part of the new Department of Homeland Security in March 2003. It is tasked with responding to, planning for, recovering from and mitigating against disasters.
FERS	Federal Employees' Retirement System FERS became effective in 1987, and most Federal civilian employees hired after 1983 are covered by this retirement system. Many of the FERS features are portable so that employees who leave Federal employment may still qualify for the benefits.
FFB	Federal Financing Bank The FFB is a Government corporation established to centralize and reduce the cost of Federal and federally-assisted borrowing from the public.
FFS	Federal Financial System A central standardized accounting system is use during the 1990s in SBA, and later replaced by an Oracle-based administrative accounting system.
FICA	Federal Insurance Contribution Act The Act establishing a social security tax, a largely self-supporting program for employees.

FMFIA	Federal Managers Financial Integrity Act The Act primarily requiring ongoing evaluations and reports on the adequacy of the internal accounting and administrative control systems of executive agencies.
FY	Fiscal Year The SBA fiscal year begins on October 1 st and ends the following September 30 th .
GAO	General Accounting Office The GAO is the audit, evaluation and investigative arm of Congress. GAO exists to support the Congress in meeting its Constitutional responsibilities and to help improve the performance and ensure the accountability of the Federal Government for the American people. For more information, please go to http://www.gao.gov/ .
GC/BD	Government Contracting and Business Development GC/BD works to create an environment for maximum participation by small, disadvantaged and woman-owned businesses in Federal Government contract awards and large prime subcontract awards. For more information, please go to http://www.sba.gov/GC/ .
GISRA	Government Information Security Reform Act The Act that requires Federal agencies to perform an internal risk assessment of their electronic information systems and security processes.
GPR	Guaranty Purchase Review The GPR program was instituted to coordinate the review of a random sample of guaranty loan purchases completed by each SBA district office. The GPR is a means to improve the guaranty purchase process.
GPRA	Government Performance and Results Act The Act enacted primarily to require strategic planning and performance measurement in the Federal Government.
GRTS	Guaranty Repair Tracking System As part of its portfolio management, SBA must identify and evaluate situations where a lender's actions or omissions are severe enough to consider reducing or denying liability under the Agency's 7(a) guaranty on a loan. SBA refers to a reduction of the guaranty percentage as a guaranty repair. The SBA implemented a system to track loan guaranty problems and identify lender performance trends related to guaranty issues.
HUBZone	Historically Underutilized Business-Zone Encourages economic development in historically underutilized business zones (HUBZones) through the establishment of Federal contract award preferences for small businesses located in such areas. After determining their eligibility, the SBA lists qualified businesses in its PRO-Net® database. For more information, please go to http://www.sba.gov/businessop/programs/hubzone.html .
IRM	Information Resource Manager Information technology resources are approved for purchase by the Agency Information Resource Manager. The IRM is also responsible for determining what level of approval is required for each item.

IT	Information Technology Includes matters concerned with the design, development, installation, and implementation of information systems and applications.
ITL	International Trade Loan Offers long-term financing to small companies engaged in or preparing to engage in international trade, as well as to small businesses adversely affected by import competition. For more information, please go to http://www.sba.gov/financing/loanprog/tradeloans.html .
JA²MS	Joint Accounting and Administrative Management System The SBA's current administrative accounting system.
LAMP	Lender Analysis and Management Program Assists SBA in reaching its goal of providing field offices and CDC partners with improved oversight and management tools, particularly 504 portfolio risk management.
LINC	Learning, Information, Networking, Collaboration A joint effort between the Treasury and the SBA to encourage more private sector business-to-business linkages that enhance the economic vitality and competitive capacity of small businesses, particularly those located in economically distressed urban and rural areas.
LMS	Loan Monitoring System The new loan monitoring system aids SBA in managing its core loan guarantee programs and serves as one of the building blocks in the overall systems modernization project.
LowDoc	Low Documentation Loan A loan with reduced paperwork used for some loan requests of \$150,000 or less. It uses a one-page application that relies on the strength of the applicant's character and credit history. For more information, please go to http://www.sba.gov/financing/lendinvest/lowdoc.html .
M&A	Office of Management and Administration The Office of Management and Administration (M&A) serves primarily in support of the Office of Capital Access, the Office of Government Contracting and Business Development and the Office of Entrepreneurial Development, as well as other offices located within the Office of the Administrator by directing human resources, information technology, contracting and purchases, grants management and Agency administration.
MAP	Management's Assessment Process SBA's term for a Control Self-Assessment workshop. It is a formal, documented process in which the management and/or work teams directly involved in a business function judge the effectiveness of the processes in place and determine if the chance of reaching the business objectives is reasonably assured.
MD&A	Management's Discussion and Analysis The MD&A is considered Required Supplementary Information for Federal financial statements and is designed to provide a high level overview of the Agency.

MRF	Master Reserve Fund SBA's fiscal and transfer agent maintains this reserve fund to facilitate the operation of the 7(a) secondary market program.
NCIC	National Crime Information Center The FBI National Crime Information Center is a Nationwide information system dedicated to serving and supporting criminal justice agencies; local, state and Federal, in their mission to uphold the law and protect the public.
OCFO	Office of the Chief Financial Officer The OCFO is responsible for the financial activity of the Agency. This includes Agency disbursements, management and coordination of Agency planning, budgeting, analysis and accountability processes. For more information' please go to http://www.sba.gov/cfo/ .
OCIO	Office of the Chief Information Officer Supports and provides guidance for the SBA's Nationwide computer automation and information technology efforts.
ODA	Office of Disaster Assistance The ODA promotes economic recovery in disaster ravaged areas. In the wake of physical disasters, SBA's loans are the primary form of Federal assistance for non-farm, private sector disaster losses for individuals and businesses.
OFA	Office of Financial Assistance The OFA administers various loan programs to assist small businesses.
OFO	Office of Field Operations The OFO provides policy guidance and oversight to regional administrators and district directors in implementing Agency goals and objectives
OGC	Office of General Counsel The OGC provides advice for senior management, as well as legal support for all of the Agency's programs, initiatives and administrative responsibilities.
OIG	Office of Inspector General The OIG conducts and supervises audits, inspections and investigations relating to SBA programs and operations.
OLO	Office of Lender Oversight The OLO provides oversight and evaluation of SBA's lenders and lending programs in order to identify and monitor the risk in the Agency's loan programs.
OMB	Office of Management and Budget The OMB assists the President in overseeing the preparation of the Federal budget and to supervise its administration in Executive Branch agencies. For more information, please go to http://www.whitehouse.gov/omb/ .
OPM	Office of Personnel Management The Federal Government's Human Resource Agency. For more information, please go to http://www.opm.gov/ .

ORB	Other Retirement Benefits SBA recognizes a current operating expense for the future cost of these and other retirement benefits (ORB) at the time the employee's services are rendered. This ORB expense must be financed by the OPM and is offset by the SBA through recognition of an imputed financing source.
PCECGF	The Pollution Control Equipment Contract Guarantee Fund PCECGF supports the costs associated with the credit portfolio of pre-October 1991 pollution control equipment loans and guarantees being liquidated by the Agency.
PCLP	Premier Certified Lenders Program Covers active certified development companies in good standing in the accredited lenders program.
PDD	Presidential Decision Directive Directives are used to promulgate Presidential decisions on national matters.
PLP	Preferred Lender Program Program covers certified or preferred lenders that receive full delegation of lending authority. For more information, please go to http://www.sba.gov/financing/lendinvest/plp.html .
PMI	Presidential Management Interns Attracts outstanding individuals who have an interest or a commitment to a career in the analysis and management of public policies and programs.
QSR	Quality Service Review A systematic, proactive and cost-effective management review of SBA's district and branch offices.
RFA	Regulatory Flexibility Act The Act requires Federal agencies to prepare a Regulatory Flexibility Analysis to find simpler, less burdensome ways for small businesses, not-for-profit organizations, or small governmental entities to comply with federal requirements. SBA oversees the Act's enforcement.
S&E	Salaries and Expenses The Salaries and Expenses Fund is funded by appropriations which are used to support the administrative costs incurred in carrying out the missions and functions of the SBA.
SAS	Statement on Auditing Standards Establish standards and provide guidance on the design and selection of an audit sample and the evaluation of the sample results.
SBA	Small Business Administration A Federal agency of the Executive Branch whose mission is to aid, counsel and protect the interests of small businesses and help families and businesses recover from national disasters. For more information, please go to http://www.sba.gov/ .

SBDC	Office of Small Business Development Centers Delivers management and technical assistance, economic development and management training to existing and prospective small businesses through cooperative agreements with universities and colleges and government organizations. For more information, please go to http://www.sba.gov/sbdc/sbdcnear.html .
SBG	Surety Bond Guarantee Provides guarantees bid, performance and payment bonds for contracts up to \$2 million for eligible small businesses that cannot obtain surety bonds through regular commercial channels. For more information, please go to http://www.sba.gov/financing/bonds/whatis.html
SBGRF	Surety Bond Guarantees Revolving Fund Provides assistance to small business contractors in obtaining bid, performance and payment bonds for construction, service and supply contracts.
SBIC	Small Business Investment Company Provides equity capital, long-term loans, debt-equity investments and management assistance to small businesses, particularly during their growth stages. For more information, please go to http://www.sba.gov/INV/ .
SBIR	Small Business Innovation and Research Provides a vehicle for small businesses to propose innovative ideas in competition for Phase I and Phase II awards, which represent specific research and R & D needs of the participating Federal agencies. For more information, please go to http://www.sba.gov/businessop/programs/sbirsttr.html .
SBLC	Small Business Lending Companies A group of 14 non-depository small business lending companies listed by Capital Access.
SBREFA	Small Business Regulatory Enforcement Fairness Act The Act assists small businesses with unfair and excessive federal regulatory enforcement, such as repetitive audits or investigations, excessive fines, penalties or retaliation by a federal agency.
SCORE	Service Corps of Retired Executives Offers counseling and training for small business owners who are starting, building or growing their businesses. Sponsored by the SBA, SCORE's services are free of charge and are provided by retired or active business volunteers. For more information, please go to http://www.score.org .
SDB	Small Disadvantaged Business Small business owned and controlled by individual(s) claiming to be socially and economically disadvantaged. For more information, please go to http://www.sba.gov/sdb/index.html .
SDM	Systems Development Methodology Establishes policies for systems development.
SESCDP	Senior Executive Service Candidate Development Program Designed to create pools of qualified candidates for Senior Executive Service positions through training.

SFFAS	Statement of Federal Financial Accounting Standards Accounting standards and principles for Federal Government, published by the Federal Accounting Standards Advisory Board, (FASAB).
SOP	Standard Operating Procedure Standard Operating Procedures are the primary source of the Agency's internal control.
SSBIC	Specialized Small Business Investment Company Provides equity capital, long-term loans, debt-equity investments and management assistance to socially or economically disadvantaged small businesses.
ST&E	Security Test & Evaluation Performs Security Test & Evaluation reviews on all of SBA's high-priority computer systems by the CIO.
TBIC	Tribal Business Information Center Provides business development assistance to prospective and current reservation-based Native American small business owners. For more information, please go to http://www.sba.gov/naa/ .
TOP	Treasury Offset Program A centralized debt collection program of the Treasury's Financial Management Service. The offset program includes the offset of Federal tax refunds, Federal salary, Federal retirement pay and Federal vouchers, and includes any Federal income benefits paid to a delinquent borrower.
TSP	Thrift Savings Plan A defined contribution retirement savings and investment plan for employees covered by either CSRS or FERS.
USEAC	U.S. Export Assistance Center Offers a full range of federal export programs and services from the SBA, the U.S. Department of Commerce, the Export-Import Bank of the U.S, and other public and private organizations. For more information, please go to http://www.sba.gov/oit/txt/export/useac.html .
WBC	Women's Business Center Program Provides long-term training and counseling to women owning or managing a business, including financial, management, marketing and technical assistance, and procurement. For more information, please go to http://www.sba.gov/financing/special/women.html .

APPENDIX 7 - SBA PROGRAMS AND OFFICES

Office of Administration

The Office of Administration plans, directs and executes all administrative management functions within SBA Headquarters and monitors administrative programs in field offices. The Office of Administration develops policies and procedures for the procurement of supplies, equipment and non-personnel services. This office also implements and manages approved grants and cooperative agreements.

Office of Advocacy

The Office of Advocacy is an independent voice for small business within the federal government. The Office of Advocacy represents the interests of all small entities including small businesses, small organizations and small governmental jurisdictions. Appointed by the President and confirmed by the U.S. Senate, the Chief Counsel for Advocacy directs the office. The Chief Counsel advances the views, concerns, and interests of small business before Congress, the White House, federal agencies, federal courts, and state policy makers. Economic research, policy analyses, and small business outreach help identify issues of concern. Regional Advocates and an office in Washington, DC, support the Chief Counsel's efforts.

Since its founding in 1976, the Office of Advocacy has pursued its mission in two ways: by creating research products that help lawmakers understand the contribution of small businesses to the U.S. economy and through regulatory experts who work to convince Federal agencies to consider the impact of their rules on small businesses before those rules go into effect. Recently, Advocacy added a new component to reduce regulatory burdens for small business at the state level by involving its Regional Advocates in promoting state model legislation based on Advocacy's experience with the Federal Regulatory Flexibility Act and Executive Order 13272 (titled "Proper Consideration of Small Businesses in Agency Rulemaking,"). The Office of Advocacy's economic research, regulatory interventions, and model state legislation initiative reduce regulatory barriers that impede small business growth and development.

Office of Field Operations

The Office of Field Operations represents SBA field offices at Headquarters. This office:

- Provides policy guidance and oversight to regional administrators and district directors in implementing Agency goals and objectives, and in solving problems in specific operational areas;
- Establishes and monitors performance goals for district offices;
- Provides Associate Deputy Administrators, Associate Administrators and General Counsel with a vehicle for overseeing field office program and policy implementation;

- Provides feedback to Headquarters management regarding the performance of their programs;
- Ensures that field offices have adequate input into all policy formation and participate in policy deliberations at Headquarters;
- Organizes reviews of field offices; and Informs the SBA Administrator of field activity.

Office of General Counsel

The Office of General Counsel provides advice for senior management, as well as legal support for all of the Agency's programs, initiatives and administrative responsibilities. The Office of General Counsel conducts litigation necessary to resolve legal issues, collect sums due and defend the Agency.

Office of Human Resources

The Office of Human Resources provides personnel program leadership and advisory services to SBA program offices. Personnel program responsibilities include recruitment, employment, training, position classification, payroll, labor relations, performance management, adverse/disciplinary actions, benefits, awards and incentives. The Office of Human Resources develops Agencywide personnel management policies and procedures, and conducts personnel management program evaluations.

Office of the Chief Information Officer

The Office of the Chief Information Officer supports and provides guidance for the SBA's Nationwide computer automation and information technology efforts. This office helps SBA field and Headquarters program offices identify the ways automation and technology can improve service delivery, acquire new technology and develop new systems. It also administers the SBA's home page (www.sba.gov).

Office of the National Ombudsman

The Office of the National Ombudsman (ONO) fosters a more small-business-friendly Federal regulatory enforcement environment by assisting small businesses when they experience excessive federal regulatory enforcement actions, such as repetitive audits or investigations, excessive fines, penalties, threats, retaliation or other unfair enforcement action by a federal Agency. It does this by evaluating how Federal agencies treat small businesses during enforcement or compliance actions. The ONO receives comments from small concerns and acts as a liaison between them and federal agencies. Comments received from small businesses, are forwarded to federal agencies for a high level review and federal agencies are requested to respond concerning the fairness of their enforcement action. ONO encourages Federal agencies to decrease the number of regulatory enforcement actions taken against small business and increase the number of enforcement actions in which the civil penalty is reduced or waived.

The Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA), directs the Ombudsman to:

- Work with each Federal Agency having regulatory authority over small businesses to ensure that the latter have a means to comment when they receive or are subject to an audit, on-site inspection, compliance assistance effort, or other enforcement-related communication or contact by Agency personnel.
- Establish a means to receive comments confidentially, if requested, from small businesses regarding action by Agency employees conducting compliance or enforcement activities, and a way to submit comments confidentially, if requested, to the affected Agency.

- Report annually to Congress and affected agencies, evaluating agencies' enforcement activities and rating their responsiveness to small business.
- Coordinate the activities of 10 Regulatory Fairness (RegFair) Boards.

Office of Capital Access

The Office of Capital Access (OCA) assists small businesses in obtaining the loans necessary for growth by being a gap lender, providing assistance to small businesses that would otherwise would not qualify for un-guaranteed financing, obtaining equity, or taking advantage of procurement opportunities.

The 7(a) loan program requires SBA's lending partners to certify that the applicant was unable to qualify for loans elsewhere on reasonable terms. The 504 program, which has a statutorily mandated job creation component, fills another lending gap by providing long term, fixed rate financing for major assets such as real estate and heavy equipment. The Surety Bond Guaranty is a program which serves as a gap surety bond credit provider expanding the bond credit and capacity of small contractors who would not otherwise be able to compete for public and private work. Small Business Investment Center (SBIC) financings generally support smaller transactions that may not otherwise receive funding from private venture firms or financial institutions.

General Business 7(a) Loan Guaranty Program

The 7(a) loan program guarantees small business loans up to \$1 million (with a maximum loan size of \$2 million) for virtually every business purpose. The guaranty can be for as much as 85 percent on loans of \$150,000 or less and 75 percent on loans of more than \$150,000. Borrowers may have more than one SBA loan at a time, as long as the total amount guaranteed does not exceed the SBA's guaranty cap of \$1 million. The only exceptions to these limits are for loans approved under the Export Working Capital Program (EWCP), which receive a guaranty of up to 90 percent, and the Defense Loan and Technical Assistance (DELTA) Loan Program.

504 Certified Development Company Loans

The 504 program provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings and long-life capital equipment. SBA fully guarantees (at 100 percent) debentures issued by the CDC for up to 40 percent of the project cost not to exceed \$1.0 million or \$1.3 million for projects that meet specific public policy purposes. The remaining 60 percent is provided by borrower injection (10-20 percent) and private capital sources.

International Trade and United States Export Assistance Centers (USEACs)

The Office of International Trade (OIT) develops, oversees, and delivers SBA's technical assistance and export finance programs to small business exporters. It provides overall direction to staff located across the country at 19 USEACs and 70 SBA District Offices. OIT works extensively with other Federal agencies, such as the Department of Commerce and the Export-Import Bank, to coordinate the delivery of services to small firms and with the U.S. Trade Representative on small business-related trade issues. OIT also supports the Administration's trade policy and foreign affairs efforts, participates actively in bilateral initiatives, and is a key participant on the interAgency Trade Promotion Coordinating Committee (TPCC).

Microloans

The Microlending program serves entrepreneurs who lack the financial resources and the technical business knowledge to obtain loans in the commercial market. Microlending combines loans with intensive technical assistance, which increases the likelihood of the success of the borrower by providing essential training tailored to meet the individual needs of the small business. SBA makes

loans up to \$750,000 to intermediaries who in turn make very small loans (\$35,000 and under) and provide technical assistance to entrepreneurs traditionally considered unbankable because of inexperience with credit, lack of assets, or the need for technical assistance.

SBAExpress

SBAExpress encourages lenders to make more small loans to small businesses. Participating banks use their own documentation and procedures to approve, service and liquidate loans of up to \$150,000. In return, the SBA guarantees up to 50 percent of each loan.

Secondary Market

Secondary market gives lenders holding SBA-guaranteed loans an opportunity to improve their liquidity by selling both the guaranteed and unguaranteed portion of the loans to investors. Frequent secondary market buyers include banks, savings and loan companies, credit unions, pension funds and insurance companies.

Surety Bond Guarantee Program

The SBG Program provides 70-90% bid, payment, and performance bond guarantees on behalf of small businesses for construction, service, and supply contracts up to \$2 million. SBA's guarantee provides surety companies with the necessary incentive to extend surety bond credit to small contractors who could not otherwise compete in the contracting industry.

Small Business Investment Company Program

Small Business Investment Companies (SBICs) encourage private risk-taking by licensing and investing in privately owned and managed venture capital funds. These funds (SBICs) are a major source of scarce equity capital and long-term debt financing for new or expanding entrepreneurial companies. Thousands of small businesses across America benefit from this unique public-private partnership.

Office of Government Contracting and Business Development

The acquisition reforms of the 1990s changed the way agencies obtain goods and services. Agencies are using Federal supply schedules, government-wide acquisition contracts, government purchase cards, and bundling contract requirements. While these streamlined contracting practices may provide for a more efficient procurement process, they often do not result in awards to small businesses. The Office of Government Contracting and Business Development (GC/BD) promotes increased small business participation in the Federal procurement market for goods and services. The office fulfills SBA's statutory mission to ensure that a fair share of Federal procurement goes to small businesses.

Working with Federal agencies, SBA negotiates procurement goals, monitors performance, encourages the use of small business sources, provides procurement training and technical assistance to small firms, and provides policy direction and guidance to Federal agencies. Several of the government-wide goals are statutory, including small businesses, small disadvantaged businesses, women-owned small businesses, HUBZone small businesses, and service disabled veterans-owned small businesses.

8(a) Program

The 8(a) Business Development Program assists firms owned and controlled by socially and economically disadvantaged individuals to enter and succeed in the economic mainstream. SBA helps eligible small businesses in a structured developmental process over a 9-year program participation term. SBA provides access to business development opportunities authorized under section 8(a) of the Small Business Act. Assistance includes access to sole source and limited competition Federal contract opportunities. The program works with Federal acquisition agencies to develop contract opportunities for program participants and assist firms with partnering, teaming, and joint venture

arrangements in support of their business development plans. Nearly 10,000 firms participate in both the 8(a) and Small Disadvantaged Business programs.

HUBZone Program

Historically Underutilized Business Zones (HUBZones) are distressed urban and rural areas characterized by chronic high unemployment and/or low household income, or are designated Indian Lands. Firms that SBA certifies as qualified HUBZone Small Business Concerns are eligible for Federal contract award preferences. Currently, the program has a portfolio of more than 9,000 firms, representing approximately \$16 billion in revenues. This portfolio of small businesses employs 122,000 people, of whom 85,000 live in economically distressed rural and urban communities - HUBZones.

7(j) Management and Technical Assistance Program

Under the 7(j) Management and Technical Assistance Program, SBA awards grants, contracts, and cooperative agreements for the development of training and technical assistance to companies owned and controlled by socially and economically disadvantaged individuals or companies located in areas of high unemployment, and firms located in areas of low income.

Prime Contracting

Prime contracting increases small business opportunities in the Federal acquisition process. This is accomplished through initiating small business set-asides, identifying new small business sources, counseling small businesses on doing business with the Federal Government and assessing compliance with the Small Business Act through surveillance reviews.

Procurement Marketing & Access Network (PRO-Net®)

Procurement marketing serves as an Internet-based search engine for contracting officers, a marketing tool for small firms and a link to procurement opportunities and information. PRO-Net® contains business information on thousands of small firms. It also provides links to the online Commerce Business Daily, Federal agencies' home pages and other sources of procurement opportunities. PRO-Net® registration is free.

Small Business Innovation Research (SBIR)

SBIR provides a vehicle for small businesses to propose innovative ideas in competition for Phase I and Phase II awards, which represent specific research and development needs of the participating Federal agencies. These awards may result in commercialization of the effort at the Phase III level and are administered by the SBA's Office of Technology.

Small Business Research

Small Business Research measures and reports the amount of Federal funding for research and R&D (excluding the amounts for SBIR and STTR) awarded to small businesses each year by the major research and R&D Federal agencies. The program is administered by the SBA's Office of Technology.

Small Business Technology Transfer (STTR)

STTR requires each small business competing for a Federal R&D project to collaborate with a nonprofit research institution. This program is a joint venture from the initial proposal to project completion. The program is administered by the SBA's Office of Technology.

Small Disadvantaged Business (SDB) Certification

SDB certification ensures that small businesses owned and controlled by individuals claiming to be socially and economically disadvantaged meet the eligibility criteria. Once certified, the businesses are eligible to receive price evaluation credits when bidding on Federal contracts.

Entrepreneurial Development

The Office of Entrepreneurial Development (OED) serves the small business community through

outreach, public/private sector collaborative ventures and other creative mechanisms, providing counseling and training to America's small businesses that otherwise would not be able to afford this type of assistance. OED helps individual entrepreneurs to take advantage of opportunities the market offers by providing free and low-cost education and training, topical information and management assistance critical for sound decision making to start small businesses and through their "growth stages." The tools used to accomplish this are OED's SCORE, Small Business Development Center (SBDC) and Women's Business Center (WBC) programs and through delivery systems such as SBA's district offices and business information centers.

Business Information Center (BIC)

BIC provides hardware, software and telecommunications at multiple locations to help small businesses start and grow. BIC counseling and training are provided by the Service Corps of Retired Executives (SCORE) and other SBA partners and community organizations.

SCORE

The SCORE program uses a volunteer network of over 10,000 business men and women, in nearly 400 chapters throughout the country, to bring real-world expertise and hands-on experience to America's prospective and start-up small businesses. SCORE volunteers are active and retired executives and small business owners who provide online and face-to-face counseling, mentoring, and training workshop services to position small businesses for success through sound decision-making. These "Counselors to America" give back to the nation's local economies more than a million hours of volunteer service by annually conducting approximately 500,000 counseling and training sessions.

Small Business Development Centers

The Small Business Development Center (SBDC) program provides management and technical assistance, with more than 1,100 service locations in all 50 states and the territories to start-up and established businesses seeking free or low cost assistance. SBDCs offer counseling, training, and other services tailored to meet the requirements and needs of the state and community in which the businesses are located. This program assists businesses in the areas of marketing and business strategy; financing; technology transfer; government procurement; management, manufacturing; engineering; sales; merchandising; accounting; e-commerce; exporting; and other disciplines needed to start and grow their small businesses.

Women's Business Centers

Women's Business Centers (WBCs) assist women entrepreneurs by offering programs and services to help them succeed. WBCs promote the growth of women-owned businesses through programs that address business training and technical assistance, and provide access to credit and capital, federal contracts, and international trade opportunities. With women's business centers in nearly every state and territory, a nationwide network of mentoring roundtables, women-owned venture capital companies, and technology, SBA is helping unprecedented numbers of women start and build successful businesses. WBCs help women at every stage of developing and expanding successful businesses by counseling, teaching, encouraging and inspiring.

Women-Owned Business Procurement

Women-owned business procurement uses a multifaceted outreach and educational program to teach women business owners how to market to the Federal Government.

Office of National Women's Business Council

The Office of the National Women's Business Council undertakes a variety of programs and initiatives in support of women-owned businesses. The Council holds two statutorily-mandated public Council meetings, which now also includes the participation of the women's business community at large. The Council also holds other public roundtable events: one with the Office of Advocacy and the Office of

Women's Business Ownership on the state of women's business research, one on the issue of access to affordable health care, and one on the subject of mentoring for women in business.

The Council publishes research study reports, Issue in Brief reports (which synthesize and summarize Federal and other research information for women business owners and policy makers, such as on health care issues and Federal procurement), and Fact Sheets on the numbers and growth of categories of women-owned firms. The Council manages two web sites: nwbc.gov and womenbiz.gov, and has established a bimonthly e-newsletter, Engage!. Also, the Council has begun holding a monthly toll-free issues conference call, Women's Business Connection, to inform and engage women business owners on important policy issues. Some of the subjects covered in the calls include: contract anti-bundling efforts, homeland security both from business ownership and procurement opportunities perspectives; mentoring; Federal procurement news and perspectives; and international trade.

Office of Disaster Assistance

The Office of Disaster Assistance (ODA) plays a vital role in the aftermath of disasters. Through ODA, the SBA is responsible for providing affordable, timely and accessible financial assistance to homeowners, renters and businesses of all sizes affected by disaster. Financial assistance is available in the form of low-interest, long-term loans.

The disaster loan program is administered through four Area Offices located in Niagara Falls, NY; Atlanta, GA; Ft. Worth, TX; and Sacramento, CA. SBA's disaster loans are the primary form of federal assistance for the repair and rebuilding of non-farm, private sector disaster losses. For this reason, the disaster loan program is the only form of SBA assistance not limited to small businesses.

ODA makes two types of disaster loans:

- Physical disaster loans are for permanent rebuilding and replacement of uninsured or underinsured disaster-damaged privately-owned real and/or personal property. SBA's physical disaster loans are available to homeowners, renters, businesses or all sizes and nonprofit organizations.
- Economic injury disaster loans provide necessary working capital until normal operations resume after a disaster. Economic injury disaster loans are restricted to small businesses.

Office of Veterans Business Development

Statutes direct the Office of Veterans Business Development to conduct comprehensive outreach on behalf of the Agency, and to be responsible for the formulation, execution, and promotion of policies and programs of the Administration. To accomplish these tasks, OVBD operates its National Outreach Initiative through direct service delivery, through utilization of funding agreements with resource partners, through coordination of outreach and service delivery with other federal Agency partners, and through development of Agency program initiatives.

APPENDIX 8 - DATA VALIDATION AND VERIFICATION

The following provides, for each performance indicator, a definition, source, validity statement and discussion of limitations.

Measure	Regulatory cost savings to small businesses
Definition	Cost savings to small businesses because of changes to proposed regulations as a consequence of Office of Advocacy actions.
Source	Regulatory cost savings are based on changes to final regulations or the delay in the implementation of final regulations that result in decreased costs or increased revenue for small entities as a result of intervention by Advocacy, small entities (businesses, communities, and not for profits), and SBREFA panels. The source for the estimated savings is usually the regulatory analysis of the Agency but it may also be based on an estimate provided by the industry.
Validation	Estimates of regulatory cost savings are difficult to make and require a number of assumptions. The Office of Advocacy believes their estimates to be valid.
Limitations	<p>Estimates made using information gathered from various sources including other agencies' data, Congressional Budget Office estimates, trade association and industry data.</p> <p>Cost savings cannot be predicted accurately because of numerous external factors such as the number of regulations issued annually; the cost/impact of the regulations issued annually, agencies' willingness to make changes that result in savings, etc. This estimate is based on the median of savings achieved in FY 1999, 2000, 2001 and 2002, plus or minus two standard deviations to eliminate outliers. For future years, that amount is revised upward by an average growth rate of 10% annually. There is a distinct possibility that future years' savings will trend downward if federal regulatory agencies internalize processes that result in rules with less impact from the outset.</p> <p>Projecting future savings/burden reduction can never be precise because of the many variables involved (e.g., one very large regulatory change can significantly skew for that year the total cost figure); nevertheless, it is a valid and real outcome measure for the office.</p>
Remedies for Limitations	Cross check against other regulatory savings estimates.
Verification	SBA will independently verify this data by 2008

Measure	Jobs created by Capital Access programs
Definition	Estimates of jobs created by SBA programs.
Source	<p>Disbursed loans for 7(a) and 504 estimate from loan accounting database.</p> <p>SBIC dollar financings from program database.</p> <p><u>7(a)</u>: Based on SBDC's annual economic impact report to SBA. It includes data on loan dollars obtained for clients and jobs created. Job coefficient is \$32,382 that is an average of job coefficient numbers for 1999 and 2000 for SBDC clients that were assisted in getting loans.</p> <p><u>504</u>: Based on SBA's 504 program data on loan application of expected number of jobs created from disbursed loan funds. Job creation constant is \$33,366 for loans made 1998-2000. In addition to jobs created; the 504 program contributes to jobs retained.</p> <p><u>SBIC</u>: Based on the Arizona Venture Capital Impact Study made by the Zermatt Group (1999). Study estimates a job creation constant of one job for \$35,000 invested in 1999.</p>
Validation	Capital infusion in a firm will most often lead to growth in jobs, sales and revenue. This measure focuses on the number of jobs created. By multiplying the dollar volume of loans by the job coefficient an estimate of jobs created is made.
Limitations	The 7(a) job coefficient is based on a study done in the early 1990s. The Bureau of Labor Statistics at the Department of Labor has recently used their data to estimate the job coefficient for SBA loans made in 1998. This estimate uses the number of jobs created divided by the change in jobs between 1997 and 2000 to estimate the job coefficient. For 7(a) this estimate varied with the size of the loan. The average number of disbursed dollars per job created for SBA's 7(a) loans made in 1998 was \$ 53,895. This estimate is a lot higher than the previous method and points to the need for further analysis.
Remedies for Limitations	A project is under way with Bureau of Labor Statistics to obtain estimates of job creation by SBA loan recipients for firms that have EIN numbers.
Verification	SBA will independently verify this data by 2008

Measure	Loans to women-owned businesses
Definition	Number of 7(a) and 504 Loans to firms 51 percent owned by women.
Source	Loan accounting database.
Validation	The measure provides the share of approved loans to 51 percent women-owned firms.
Limitations	Census uses the 51 percent women-owned definition. However, this does not account for loans to women-owned businesses in community property states.
Remedies for Limitations	Provide data on loans to 50 percent women-owned firms in addition to 51 percent women-owned firms.
Verification	SBA will independently verify this data by 2008

Measure	Loans to minority-owned businesses
Definition	Number of 7(a) and 504 Loans to firms 51 percent owned by minorities.
Source	Loan accounting database.
Validation	The measure provides the share of approved loans to 51 percent minority-owned firms.
Limitations	Census uses the 51 percent minority-owned definition. However, this does not account for loans to minority-owned businesses in community property states.
Remedies for Limitations	Provide data on loans to 50 percent minority-owned firms in addition to 51 percent minority-owned firms.
Verification	Through audits and independent reviews.

Measure	Loans to veteran-owned businesses
Definition	7(a) and 504 Loans to firms 51 percent owned by veterans.
Source	Loan accounting database.
Validation	The measure provides the share of approved loans to 51 percent veteran-owned firms.
Limitations	Census uses the 51 percent veteran-owned definition. However, this does not account for loans to veteran-owned businesses in community property states.
Remedies for Limitations	Provide data on loans to 50 percent veteran-owned firms in addition to 51% veteran-owned firms.
Verification	SBA will independently verify this data by 2008

Measure	Number of Start-up Firms Financed by 7(a) & 504
Definition	Number of 7(a) & 504 approved loans to start-up firms. Start-up firms are 0-24 months old. The definition is the one used by Census.
Source	SBA Loan Approval Database (TTS001).
Validation	This indicator is a valid as it measures the degree to which SBA is providing access to capital for an important market segment.
Limitations	The measure would be slightly improved if disbursed loans were used instead of approved loans.
Remedies for Limitations	See above.
Verification	SBA will independently verify this data by 2008

Measure	Export sales assisted by SBA loans
Definition	The total dollar volume of sales supported by export loans.
Source	SBA's Office of International Trade records.
Validation	Export sales represent an economic stimulus to firms. The measure summarizes the increase in export sales achieved by SBA clients getting exporting assistance.
Limitations	Export loans are often for revolving lines of credit. It is difficult to track all sales made through revolving credit. Consequently the measure may underestimate the sales volume generated by the line of credit.
Remedies for Limitations	Improve reporting process to ensure that most export sales achieved by SBA export assistance clients are captured.
Verification	A check is performed in Headquarters to ensure the identification and summation of export sale numbers is correct. SBA has not yet independently verified this data.

Measure	Federal Procurement Prime Contract Dollars to small firms, to small disadvantaged businesses including 8(a), to women-owned, minority-owned, service disabled veteran-owned firms, and HUBZones-certified firms.
Definition	This indicator measures the extent to which these different categories of small business ownership receive Federal Prime Contract dollars.
Source	The Federal Procurement Data System (FPDS) which is the official source for data on Federal procurements.
Validation	Congress establishes targets for the share of Federal procurement dollars that should reach the small business sector as well as specified subpopulations. The Office of Federal Procurement Policy (OFPP) in its policy letter 99-1 supports SBA's use of FPDS data to measure Federal contract dollars received by small businesses, women-owned, minority-owned, service disabled veteran-owned and HUBZone certified firms, rather than requiring agencies to provide this information on separate reports.
Limitations	Prime data are reported to the FPDS on a quarterly basis. FPDS has been determined to be the most accurate and verifiable reporting system of contract awards under the procurement preference goal program; however, there are some minor problems with data that are entered incorrectly into FPDS through the SF-279 and SF-281. The final FPDS data are available about a year after the end of the fiscal year. The FPDS was not programmed to identify HUBZone awards during FY 1999.
Remedies for Limitations	Through the electronic commerce committee PEC, GSA is re-engineering the FPDS to improve the accuracy and timeliness of information.
Verification	SBA does not separately verify the data obtained from FPDS system. The General Services Administration is responsible for working with the Agencies on the accuracy of the FPDS database.

Measure	Customer satisfaction rate for WBC, BICs, SBDC and SCORE
Definition	Surveys are used to ascertain clients' attitudes regarding the usefulness and relevancy of the assistance they received as well as whether the assistance received resulted in the clients' modifying their behavior or actions to improve the management of their businesses.
Source	The WBC and SCORE surveys were done by ACSI at the University of Michigan. The SBDC study is done by SBDC Chrisman study, and the BIC was done in house.
Validation	The ACSI surveys were based on random samples for a total of 200 interviews per survey.
Limitations	The three different surveys (ACSI, BIC and SBDC) use different methods and are therefore not comparable with each other. The surveys measure satisfaction and there is not necessarily a correlation between customer satisfaction and subsequent customer business success.
Remedies for Limitations	Use same survey instrument for all surveys. Expand the scope of the surveys to include attribution measures.
Verification	The surveys have not been verified. As surveys are done in the same way over time, consistency checks can be applied.

Measure	Field presence within 3 days of a disaster declaration
Definition	Percentage of Disasters where effective field presence is provided within 3 days of a physical disaster declaration. Field presence is defined as SBA disaster office personnel on site to coordinate the provision of disaster assistance with appropriate Federal, state and local officials.
Source	Closeout reports prepared by the disaster area office after each disaster.
Validation	This indicator is a valid measure of SBA's assistance to disaster victims because timely assistance is critical to re-establishing lives and communities in the aftermath of a disaster.
Limitation	Currently, this information is not received for approximately 6 months after a disaster is declared and there is some inconsistency in what is meant by "effective field presence" among the area offices.
Remedies for Limitation	SBA will consider options for obtaining this information much sooner after the disaster has been declared including, but not limited to, making a revision to the automated loan control system so that this information can be inputted as soon as it is accomplished. SBA will also provide further guidance to the area offices to define "effective field presence" and its scope.
Verification	Audits.

Measure	Disaster loan applications processed
Definition	Share of applications where the disaster office has provided applicants with a decision within 20 days of receiving a complete business or EIDL disaster loan application within 18 days of receipt of a couple home loan application.
Source	Disaster automated loan control system.
Validation	This indication is a valid measure of SBA's assistance to disaster victims because timely assistance is critical to re-establishing lives and communities in the aftermath of a disaster.
Limitation	It measures the processing time when the application has been completed, not when the application process begins.
Verification	Audits.

Measure	Customer satisfaction rate (Disaster)
Definition	Satisfaction rate determined through SBA surveys to disaster victims who have applied for loans.
Source	ACSI surveys.
Validation	It is important that applicants for of Government assistance feel that they have received fair, courteous and helpful assistance. Determining how satisfied the clients were with the service received can in part capture this.
Limitation	None.
Remedies for Limitations	Done.
Verification	No verification is done.

Measure	SBA assisted small businesses start-ups
Definition	Prospective and start up small businesses assisted by SBA by technical, financial or contracting assistance.
Source	The source of the information is Section I, FY 2005 Budget Submission request.
Validation	This data provides an indication of the resources focused in beginning businesses by SBA.
Limitations	This number includes prospective and start up businesses. Currently, it is an estimate based in the number of Capital Access start-ups loans approved and the number of clients served by Entrepreneurial Development. No information from GCBD was included.
Remedies for Limitations	Changes in the data collection methodology will allow SBA to use actual numbers instead of estimates and to separate prospective from start up businesses.
Verification	SBA will independently verify this data by 2008

Measure	SBA assisted small businesses start-ups
Definition	Prospective and start up small businesses assisted by SBA by technical, financial or contracting assistance.
Source	The source of the information is Section I, FY 2005 Budget Submission request.
Validation	This data provides an indication of the resources focused in beginning businesses by SBA.
Limitations	This number includes prospective and start up businesses. Currently, it is an estimate based on the number of Capital Access start-ups loans approved. The ED allocation for prospective and start-up businesses in charts 2.1 and 2.2 are estimates based on a weighted formula. No information from GCBD was included.
Remedies for Limitations	Changes in the data collection methodology will allow SBA to use actual numbers instead of estimates and to separate prospective from start up businesses. ED has revised its standard client intake form to capture actual client counseling information, including business status information.
Verification	SBA will independently verify this data by 2008

Measure	Percentage of successful business start-ups
Definition	Percentage of small businesses start-ups assisted by SBA by technical, financial or contracting assistance that are considered to be successful.
Source	Small Business Economic Indicators, U.S. Small Business Administration, Office of Advocacy, from the Bureau of Economic Analysis.
Validation	These data will provide an indication of how effective SBA's assistance is in increasing the economic well-being of small business start-ups. The measures selected as indicators of business success are increase at the end of one year in the number of firm births, decrease in the number of start-up terminations, and increase in business revenue.
Limitations	<p>These data has the following limitations:</p> <ul style="list-style-type: none"> • It is not available in a fiscal year basis. It is only available on calendar year (CY) cycles. • The data that is used in this Strategic Plan corresponds to CY 2002. Data for CY 2008 will be available in CY 2009. • There is a lag for the availability of the previous year's data. In consequence, the Office of Advocacy must use projections instead of actual values. • The number of firm's birth includes only employer firm births. • The data currently available for terminations include existing businesses. • Non-farm proprietors' income—a partial measure of small business income— is used as a proxy for small business revenue.
Remedies for Limitations	The SBA will obtain data tabulations from raw data sources that will allow using the actual values for start-ups. The Agency will evaluate various sources of data during FY2004 to determine the one with fewer limitations on availability and reliability.
Verification	SBA will independently verify this data by 2008

Measure	SBA assisted small businesses with competitive opportunity challenges
Definition	Small business concerns located in urban or rural areas with high proportions of unemployed or low-income individuals or owned by low-income individuals, or other groups that own and control little productive capital because they have limited opportunities for small business ownership assisted by SBA by technical, financial or contracting assistance.
Source	Entrepreneurial Development's data tabulations.
Validation	These data will provide an indication of how effective SBA is in increasing the number and success of small business among those businesses receiving SBA's assistance within the defined populations.
Limitations	General population data sources do not routinely includes the required information to establish control groups.
Remedies for Limitations	During FY 2004, the SBA will determine which ones are the best remedies to these limitations.
Verification	SBA will independently verify this data by 2008